THE AFFORDABLE LIFE

A PRACTICAL GUIDE TO MANAGING YOUR MONEY

INTRODUCTION

TAKE A NEW LOOK AT FINANCIAL INDEPENDENCE

It's the time in your life when your future—and all the decisions that go with it—lie ahead of you. We're pleased to provide you with The Affordable Life to help prepare you for what lies ahead. It's one of many benefits of your membership in Aid Association for Lutherans (AAL).

The value of your AAL membership is more than the financial security our insurance and retirement products provide. The Affordable Life booklets and CD-ROM are an example.

After using the booklets and CD-ROM, you'll be ready to take control of the financial portions of your life. You'll be able to make better decisions, set some financial goals and learn about ways that can help you resolve various financial situations. You'll know more about credit, saving and investing, and many financial terms and tools.

It's a way to help you to be the best financial person you can be. You can't afford not to have The Affordable Life in your life!

If you'd like to know more about other AAL benefits, products and services available, contact your AAL representative or contact AAL in one of the following ways:

By mail:
AAL
4321 N. Ballard Road
Appleton, WI 54919-0001

By phone:
(800) 225-5225

Via e-mail:
aalmail@aal.org

Using our Web site:
www.aal.org

Introduction

Do you clip coupons?

Is pizza your favorite food?

Do you sometimes carry a balance on your credit card?

Would you rather mow the lawn, shovel the driveway or do the dishes than balance your checkbook?

Do you dream of taking a vacation *without* your kids?

Are you unsure what your net worth is?

Introduction

You're Real People

If you answered "yes" to a few of these questions, then congratulations, you're real people. You don't drive a fancy car. You'll clip a coupon to save a dollar on a box of corn flakes. And you'd rather see a movie, go shopping or play basketball with your friends than stay at home and read all that financial information that arrives in the mail.

Sometimes it seems the mail just won't stop. You get credit card offers, notices for financial seminars, mailers about Roth IRAs and mutual funds. All these companies want you, and they want you to bring along your money. And you're thinking, what money? Because that same mail brings the bills, and the rent or mortgage is due in a week, and clearly, you're not living on Easy Street. Some days of the month it feels more like Wow-I'm-really-broke Street.

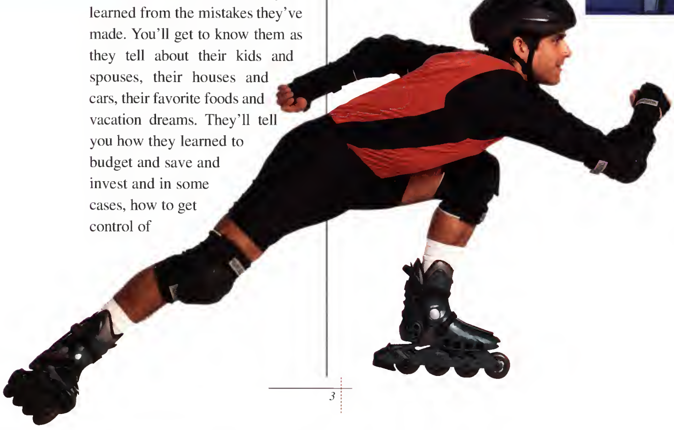
Or maybe you're not so broke. Maybe the real problem is, you've never given financial issues and money matters much time or thought, and now it seems as if everybody but you knows about these things, and you're being left behind. All that mail addressed to you assumes you understand debt load, budgeting, credit ratings, home equity loans and stock yields. But you don't. So what should you do?

First, take some comfort in the fact that you're not alone. Lots of people missed this chapter of life. After all, they don't teach money management in grade school,

high school or college. Many people begin to learn about money management when they begin their first full-time job or when they move away from home. Everyone has to start managing money somewhere. Some aren't making big bucks yet. Some are doing well. They all have dreams, just like you.

Second, read this series of booklets, *The Affordable Life: A Practical Guide to Managing Your Money*. In it, you'll find real stories of real people doing real things with real money. They'll talk about their success and about what they've learned from the mistakes they've made. You'll get to know them as they tell about their kids and spouses, their houses and cars, their favorite foods and vacation dreams. They'll tell you how they learned to budget and save and invest and in some cases, how to get control of out-of-control credit card debt. They'll talk about little things they've done that have helped them stick to a budget or save more money. Along with these stories, you'll find basic financial information, explanations and exercises that will help you crack the code of money talk.

Finally, be prepared for success. Saving, budgeting and investing is "catchy" (that's the experience of one real person you'll meet later in this series of booklets). But money management is only a means to an end. The idea is to tend to the most important things



Here's How We'll Deliver the News

in life (your family, your faith, and your friends). To work hard at your job but to make time to have fun, read books, play sports and see movies. And always to live within your means, while having a good idea of where your money goes and how you can make it work for you.

The Affordable Life is a series of five booklets, each of which looks at a particular aspect of personal financial management:

Booklet 1:
What Does Money Mean to You?

Booklet 2:
Boss Your Money Around

Booklet 3:
Credit Can Be Costly

Booklet 4:
You Really Can Become a Millionaire

Booklet 5:
The ABCs of Financial Success

Along with the real people's stories, each booklet includes basic financial discussions and guidelines, exercises, a key words section and a resource section that lists information that may interest and help you.

In addition to the booklets, we've produced an accompanying CD-ROM version of The Affordable Life. You'll be able to do some personal calculations, see and hear expert interpretations and discover choices you'll need so you can deal with your financial goals and desires.

This is valuable information that can help you make important personal decisions about the financial matters that concern you.

AAL.
The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

On the financial side

Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

AAL. More than 1.7 million members joined together for financial security and for helping one another. A powerful idea that touches the lives of millions of people each day.

Aid Association for Lutherans

THE AFFORDABLE LIFE

WHAT DOES MONEY MEAN TO YOU?

BOOKLET ONE

Booklet 1

What Does Money Mean to You?

Table of Contents

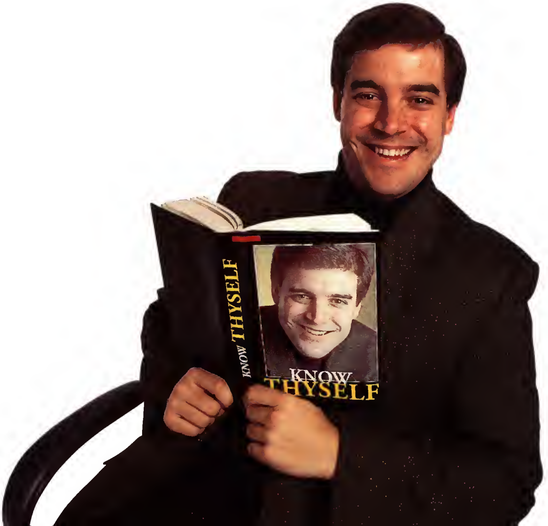
In this first booklet, we'll help you figure out exactly how you feel about money. Doesn't sound like *practical* information, does it? But think about it. Your philosophy affects your behavior. If you begin to understand why you make the money decisions you do, you can change bad habits and cultivate good ones.

Your spending decisions also make others aware of what's important to you. You display attitudes, beliefs, goals and values when you spend money. The information and activities in this booklet are designed to help single individuals and couples think about why they do the things they do when it comes to money. Couples are encouraged to complete the activities separately and discuss their answers afterwards.

Rule #1: Know Thyself

Individuals and couples completing this booklet will gain insight into money management that can help change their lives financially. As means to that end, you'll find:

1. A self-test that examines money attitudes and beliefs.
2. An activity that helps identify your spending habits.
3. A goal-setting exercise that places emphasis on realistic and reachable financial goals.



Booklet 1 Anne's story | A True Story |

Anne, an AAL employee, is portrayed by a professional model.

NAME:
ANNE S.

STATS:
27; SINGLE; NO CHILDREN

FAVORITE FOOD:
ICE CREAM

I'D SACRIFICE MY LAST PAYCHECK FOR:
RETIREMENT

MY IDEA OF A DREAM VACATION IS:
HIKING IN THE OUTDOORS.

PERSONAL MOTTO:
EVERYTHING HAS ITS PRICE!

I pretty much make decisions on my own. Most days I think I'm successful at handling money. I do have a budget and a long-range plan. I attribute much of my financial success to something I read when I was 18. It was a book about successful finances and its main recommendation was to live as thriftily as possible when you're young, as any money you save at a young age will have a long time to accumulate interest.

I lived thriftily all right. At 19, I was making just over $6 an hour and I drove a car worth about $500. A girlfriend and I wanted to move out together because we couldn't afford a place on our own. Instead of renting, we decided to buy an eight-year-old ranch house. The house was being sold through HUD, so it was a bargain. The house was just $43,000, and the 5 percent down payment meant we each just had to come up with $1,075. Our house payment was as cheap as rent.

On real estate and her state of mind:

When I was 21, I purchased my first duplex and moved in. It was tiny, but it was a great financial move. I still live there today (until I move to my new dream house next week). A few years later, I bought another small duplex nearby and rented both sides. Once I move, I intend to keep both duplexes for their rental income, and appreciation of the property. I've been warned of the risks of rental property, but I managed to find properties in a high-demand, clean, residential area. With lots of applicants to choose from, it has been easy to find good renters.

At age 27, I'm probably one of the few people around who have never had cable TV. It really has been a rather thrifty life so far (my family teases that I probably have the first dollar I made from baby-sitting). But now I'm able to reap the benefits. I drive a new car, have a beautiful new house, and I'm able to spend money on entertainment. I'm even trying to manage getting a cleaning lady into the budget. But I guess I never will get cable TV.

On advice to others:

When you're trying to get your finances under control, you have to forgive yourself for your mistakes and accept them as learning experiences. I have made mistakes. Recently, I bought a lot to build a house on and then sold it about a month later. I changed my mind about building a home. A lot is a pretty foolish, non-liquid investment but it was in a great area and it sold.

You can't be afraid to actively make money. Do research and seek out good investments. I read the real estate section of the paper every Sunday and look for opportunities. Rental properties are a big drain on your free time. For example, you'll get a phone call at 5 a.m. on Monday and you have to have a plumber there within an hour. But I think the benefits outweigh the headaches.

On what she's most proud of:

Independence, I guess. I've known all along that I don't need anyone else for finances, that I would always make sure that I would be completely independent. I guess I've seen many people who didn't handle their money well, and I can't even remember how far back I decided that this wasn't the direction I wanted to go.

Attitudes, Beliefs and Values

Your feelings, attitudes, beliefs and values affect your financial behavior and your financial goals. Think about it. If you believe strongly in giving to your church, you'll want to make it a priority in your budget. If you value higher education, you'll probably save money to pay for college for your children or for yourself. If physical fitness is important to you, you might see great value in becoming a health club member. Remember, one person's necessity is another person's luxury. On the other hand, when something is important but you just can't find the money for it, you feel discouraged and dissatisfied with your financial situation.

That's why it's so important to be true to your beliefs while still living within your means. That requires setting priorities.

The upcoming exercises provide insight into the beliefs, values and priorities that make up your money personality. If you're married, these exercises can help you understand some of the money differences between you and your spouse. By taking time to examine your values, you'll personalize your financial plan, rather than relegating yourself to one of the cookie-cutter variety.

Complete each exercise and tally your results. If you see behaviors that need to change, move on to the next booklet, *Boss Your Money Around.* The entire series can take you, step-by-step, through the right attitudes and moves to improve your financial future.

What does money really mean to me? A financial reality check.

Positive attitudes and realistic beliefs about money are key to productive money habits. People with healthy, realistic perceptions about money have better luck at reaching their financial goals. Or is it really luck? They seem to have control over their money rather than letting their money control them. You may want to photocopy this self-test first, or use the copies provided in the back of the book.

Circle the number that corresponds with the response that most closely identifies how you feel about or practice what is represented in each statement.

Strongly Agree (5) **Agree (4)** **Uncertain (3)** **Disagree (2)** **Strongly Disagree (1)**

1. Money can't buy happiness.	5	4	3	2	1
2. Every family member should have a role in family spending decisions.	5	4	3	2	1
3. People who spend on wants before ensuring the bills are paid are not financially responsible.	5	4	3	2	1
4. I understand my employee benefits and take full advantage of them.	5	4	3	2	1
5. I believe in giving back by contributing time and money to church, charity or my community.	5	4	3	2	1
6. My liquid savings help smooth out the financial ups and downs in life.	5	4	3	2	1
7. Car repairs may be unpredictable, but I still plan for them.	5	4	3	2	1
8. Little bits add up ... so I control my miscellaneous spending.	5	4	3	2	1
9. Comparison shopping is critical, especially when it comes to big-ticket items.	5	4	3	2	1
10. Paying bills on time is paramount for me. It's how I earned my good credit record.	5	4	3	2	1
11. Earning money is only the beginning of financial success. The right spending, saving and investing decisions are even more important.	5	4	3	2	1
12. I contribute regularly to my retirement plan because the key to reaching my goals is to start early.	5	4	3	2	1

	Strongly Agree (5)	Agree (4)	Uncertain (3)	Disagree (2)	Strongly Disagree (1)
13. Credit used without constraint makes you a prisoner to your bills.	5	4	3	2	1
14. "I work hard and deserve to enjoy my money" is a pretty self-destructive attitude when it comes to financial planning.	5	4	3	2	1
15. I have made a written list of all my debts and financial assets within the past 12 months.	5	4	3	2	1
Add up your total score from the **"Financial Reality Check"** here: ____________					

Now determine your "Financial Reality" baseline by finding where your score falls in the ranges that follow.

67 - 75 You have very healthy and realistic attitudes and habits when it comes to money. This series will complement the knowledge you already have, give you additional tips to improve your skills, and strengthen what looks to be a promising financial future.

60 - 66 You have healthy and realistic attitudes and practices when it comes to money. This series will help you carry out more of those things you know you should do.

51 - 59 You have moderately realistic attitudes and practices with money. Learn more about improving your money management habits and financial future through this series. Pay close attention to the section on "setting realistic and achievable goals" on page 21.

41- 50 Your money attitudes and practices may be somewhat unrealistic and may continue to disappoint you unless you make changes. You may have experienced some difficulty in achieving the things you would like. You may feel frustrated, and a little out of control in your financial life. Don't give up. This series is for you! The exercise on setting goals will give you renewed hope in your financial future. The upcoming exercise on spending types will help you examine why you use money the way you do.

40 and below You may have unrealistic money beliefs and practices. In order to have more financial success, you must be willing to change your attitudes and actions when it comes to money. Make a commitment to yourself to learn new skills to replace unsuccessful habits.

Where do attitudes and beliefs come from and where do I go from here?

Most people model their money behaviors after their parents or other adults in their lives. If you grew up watching your parents manage money effectively and openly, you are likely to do the same. If you were given an allowance and guidance on how to spend, save, and invest, you carry those lessons into your adult life.

If money was off-limits as a topic of conversation and if you were denied things without an explanation—other than "it's too expensive"—you may have some conflicting thoughts and confusion about how to manage money now.

If one person in the household handled everything with little input from other family members, it may be tough to communicate about money now.

What counts most?

The way we spend money says a lot about what it means to us and our personality in general. Money was created as a medium of exchange. These days it represents a lot more than that. For some, it's a matter of security, and, for others, it's having "arrived" at a certain level of success.

Financial counselors and psychologists tell us not to expect money to be more than it is. Yet money symbolizes what is important to us, the things and feelings we strive for. Most people never stop to think about it, yet failure to understand issues that cause us to spend can give unhealthy spending habits greater control over our lives.

The exercise that follows will help you examine your spending personality. Place an "X" in front of the statements that reflect your beliefs or lifestyle. Read each question carefully before responding. Leave the space in front of the statement blank if you do not support it. You may want to photocopy this self-test first, or use the copies provided in the back of the book.

- [ ] 1. When it comes to education, parents should never compromise the best because of cost.
- [ ] 2. A person shouldn't charge more than they are able to pay at the end of the month.
- [ ] 3. I don't save much. I tend to spend more money than I make.
- [ ] 4. Price is not directly related to quality.
- [ ] 5. I give a percentage of my income to church and/or charity.

6. You get what you pay for. Inexpensive products from discount stores are lower quality.
7. If it is worth having, it is worth waiting for.
8. I love to spend money; I'd be a great millionaire!
9. Praise, not money, should be used to reward a child for good grades.
10. Tracking every penny keeps you too focused on money and could drive a person crazy.

11. Choosing the right neighborhood is important to making the right contacts and meeting the right people.
12. A nice cushion in the checking account is a good way to protect yourself from the unforeseen.
13. No matter how much you have, you just naturally want more.
14. Given a choice between good health and a lot of money, I would choose good health.
15. I want enough money to meet my needs and no more.

16. When your salary is twice your age, you certainly have "arrived."
17. Families can't have too much insurance protection.
18. People who work hard deserve to enjoy their income.
19. In the overall scheme of things, time is more valuable than money.
20. Materialism is decaying the moral fabric of our society.

21. I try to buy top-of-the-line products.
22. It's unnerving when the checkbook balance goes below a certain level.
23. I'd rather enjoy my money now than save and wait till retirement when I'm too old to enjoy it.
24. The most memorable gifts are handmade and given from the heart.
25. If I suddenly received a large sum of money, I would give it to my church and others in need.

- [ ] 26. I like to be able to treat my friends.
- [ ] 27. If I received an unexpected lump sum, I would put it into savings and investments.
- [ ] 28. It's hard to imagine how people survived before credit.
- [ ] 29. My money goes to the things that are most important to me.
- [ ] 30. I try not to obsess about money. Other things in life are more important to me.

- [ ] 31. If you have to scrimp and budget, it's best to keep it to yourself.
- [ ] 32. It's a bad idea to go anywhere without some cash.
- [ ] 33. I would be satisfied with my income if I could make about $10,000 more than I make now.
- [ ] 34. Some high-paying jobs just are not worth the stress and endless hours away from family.
- [ ] 35. Worrying about money never helps. Money problems eventually work out.

- [ ] 36. You have to look successful to become successful.
- [ ] 37. If you don't have the money, don't buy it.
- [ ] 38. Most people live paycheck to paycheck with the help of the installment plan.
- [ ] 39. Trying to keep up with others is a self-defeating practice.
- [ ] 40. A budget isn't needed to control spending. If you're spending too much, just stop.

☐ 41. Driving a nice car makes me feel good about my situation.

☐ 42. Every debt should be paid as soon as possible.

☐ 43. One of the hardest things to do is to put off buying something you really want.

☐ 44. Bailing out adult family members causes hard feelings and family tension.

☐ 45. Things always work out for the best. Spending lots on insurance to protect yourself from everything is a waste.

☐ 46. To get ahead, you sometimes have to spend money and go into debt.

☐ 47. Every family should have a written budget, just to keep track of dollars.

☐ 48. Shopping can be depressing if you can't afford the things you want.

☐ 49. We should learn to enjoy things that don't cost money.

☐ 50. One shouldn't worry about money; either you have it or you don't.

Notice the yellow, green, red, blue and violet color-coding of the statements. Count the number of statements checked in each color and record them below.

Yellow ____________

Green ____________

Red ____________

Blue ____________

Violet ____________

Which color has the most check marks? Read on to see what your color count says about what money means to you.

Competing and conflicting values

If two colors are tied, use this tie-breaker. Go back through the two color choices only. Choose the seven statements with which you most strongly agree. The category with the greatest number should represent your strongest current values about spending decisions.

The other category will still be an influence in your life. Read both categories to assess all the techniques which might be helpful for you.

A mixture of two or more categories may indicate that you are not driven as strongly by a single force regarding money matters. A balance of the various spending types can be healthy. Each type has positive and negative aspects. Some people are still developing their money philosophy. Spending type combinations may reflect a shift in your perspective.

If some of your chosen spending types seem to clash, you may have uncovered some conflicting values in your life. If those aren't defined or resolved, there can be disharmony and an unsettled feeling in our lives. If this seems to apply to you, try hard to clarify your values and goals. Budgeting and record keeping cannot make us financially successful if our expectations clash.

Yellow

Money symbolizes a certain lifestyle, level of achievement, prestige or status and you've set some high standards for yourself. It is important that you buy high-quality and expensive things. You prefer name-brand clothes, luxury cars, and prestigious stores. You follow current trends and like fashionable restaurants. You are aware of the right neighborhoods, school and clubs in your community.

There is nothing wrong with your desire for nice or expensive things but problems may result when your needs and responsibilities aren't in balance. Status symbols may be the center of your existence or may cause frustration if you are still striving to achieve them.

You may spend too much of your income trying to achieve a certain lifestyle that meets your high standards. In your effort to move up, you may attempt to buy beyond your means or you may be susceptible to credit abuse. You may focus heavily on money and, in your zeal to attain your goals, you may hurt your ability to achieve long-term financial security.

What to do about it

You may be in jeopardy of overextending yourself with your high aspirations. Beware of living beyond your means. Make sure your purchases are suited to your income level. This is more difficult than it sounds.

If you cut back, you may initially feel deprived compared to others in your same income level. But financial success is won over a lifetime. Those who bolt out of the gate without a good pace or plan are seldom the ones who finish on top.

Tell yourself that you are more than the sum total of your money and things. It's okay to have high standards but material achievements and possessions give short-term satisfaction. As "things" are accumulated, cravings for more "things" tend to grow. These cravings never can be totally satisfied, which often leaves a sense of shallowness and even emptiness.

Take a few minutes to write down your life goals. Fine-tune them until they demonstrate the essence of what you wish your life to be about (e.g., God, family, friendships, happiness, education, security, fun, autonomy, etc.). Narrow the list to your top 10 goals. Are they material things? For most people they are not.

Read your life goals every morning for a month. If you have a family, schedule time to discuss everyone's goals. Commit to goals that you can achieve together. Use your resources of time, money and energy to achieve a life plan that reflects your values, not trends and status symbols.

Green

Money represents security and you may be afraid of not having enough. You or your family may have experienced a time of financial struggle. Others may perceive you as a miser. It's great to be prepared for the unexpected, but you may forgo promising opportunities because of your aversion to risk.

It will be difficult to watch another person spend more than you. Money has the potential of being a "hot button" and you may be attracted to more carefree spenders.

What to do about it

There are two ways your view of money can hinder your financial success—your propensity for money conflicts in relationships and your natural dislike for risk. Once you deal with these roadblocks you can channel your ability to accumulate in a way that will make you a very successful money manager.

You may already be a good record keeper. Use this skill to realistically assess your financial situation. Is your checking account or emergency fund too fat while your investments cry out for growth? Are you taking full advantage of your 401(k) and a Roth Individual Retirement Account? Are your spending habits based on reality or fear of not having enough?

Conservative money management habits are great for saving and accumulating. A little financial education may help you prevent stifling your future. Be sure to read *You Really Can Become A Millionaire* and *The ABCs of Financial Success* in this series. Check the book lists at the end of those sections. The more you learn about financial planning, the more your money can work for you.

Occasional rewards make a strict budget more bearable, especially if other family members are involved. Don't allow your need to conserve to be a controlling factor in managing household funds. Family members should share in the process and manage funds based on their age, ability and expenses. Be careful not to force your value system on a spender. Compromises should fulfill your security needs and recognize the other person's right to make spending decisions.

Red

You've been fortunate in your life. You've always had money to meet your needs and many of your wants. It's easy to become accustomed to having what you want and then expect it. If you like to indulge yourself, it may be really hard to say "no" or not buy things on impulse. It's great to pamper yourself, but don't let it get you in trouble or make you irresponsible.

You tend to procrastinate about getting control of your finances. You may avoid financial stress by refinancing or taking out new loans or consolidating bills. You may have thought, "If only I could find a rich man (or woman), my problems would be solved." Your overall spending behavior may show some financial immaturity.

What to do about it

Your financial future hinges on your ability to say "no" to yourself. It's easier to say "no" to impulse buying when you're focused on clear financial goals. Write them down immediately and keep them in front of you (e.g., on the refrigerator, on the bathroom mirror).

Identify situations that tempt you to overspend, such as killing time at the mall, coming home to an empty fridge or going out on the town with a big spender you know. Avoid situations that are most detrimental to your future wealth.

Practice spending discipline. See how long you can go without using cash, charging on a credit card, stopping at a convenience store, etc.

Create a debt repayment plan. Target one debt at a time with the highest interest rate first. If the interest rates on all your loans are within three percent of one another, start with the lowest balance first. Add $10, $20 or $50 per month to your payment. When the first debt is paid, start on the next and continue until all your consumer debt is paid.

As you experience how money management can reduce stress in your life, you may open an emergency savings account, contribute more to your retirement account or track expenses for several months.

Reap the benefits of your newfound discipline. Identify interim milestones that help you gauge how well you are doing. Each milestone accomplished on schedule is reason for a celebration. Make sure it's a low-cost, but satisfying, way to reward yourself.

Blue

This may be the most balanced and mature way to view money. You appreciate money for what it can do but are well aware of its limits. You may never be rich because you will sacrifice money for quality of life every time. Money won't get control of your life because you don't give it that kind of power.

Your balanced approach helps you avoid overspending. You don't get preoccupied with brand-name clothes or the hottest new car. You are happy spending quality time with family and friends and don't require expensive vacations and recreational activities.

For you, financial planning is a duty and reading financial literature is quite a chore. You procrastinate about financial records to spend time on the beach or fishing.

What to do about it

You understand the need for values and goals in life and in finances. Set your specific financial goals using the directions found later in this booklet. Make projections on savings needed for retirement, down payments on a house or car, etc. Compare your savings needs to current savings contributions. Post savings goals where you can see them and stay focused.

Put your savings on autopilot to save you valuable time. Start or increase your payroll deduction in a savings account at your credit union or bank. Increase your contribution to your 401(k) or other tax-deferred employer retirement account. Your employer can tell you the maximum contribution. Few employees ever reach the maximum.

Take advantage of your lack of a compulsion to overspend on material possessions. Your lifestyle choices can be a great asset in growing your nest egg. Look at your checkbook register and other spending records to be sure you can budget the extra savings.

Violet

You dislike flaunting wealth or material possessions—they represent greed and power to you. In some ways, you try to abstain from enjoying your money. You view money as a negative, corruptive force. You may even feel guilty if you have more than others who are less fortunate. You give to your church or charitable causes regardless of any personal strains.

What to do about it

You are to be commended for your selflessness and pursuit of virtue. Yet, denial of a materialistic existence should not mean avoiding financial responsibilities. Most in your spending type don't have excessive debt. They shortchange their future financial security because they take so little interest in financial affairs.

Prosperity can be used for good. Think of money management as stewardship. You have a responsibility to attend to the gifts and resources you have been given. A good steward does not ignore and deny. He builds resources for his family and his purpose in life. This demonstrates an exacting approach to money management, not a denial of money. Follow the basic money management practices outlined in this series to learn a balanced and objective approach to handling money. You may become interested in socially-conscious investing, which can put your invested money to work for good causes.

Money tips for all spending types

Changing spending habits requires replacing old behavior with new, productive behavior. Use the following list to start right away with new money management practices.

- Prioritize spending. Before you spend, categorize every purchase as a need or a want. Ask yourself which wants are most important. Watch as your spending behavior begins to change.

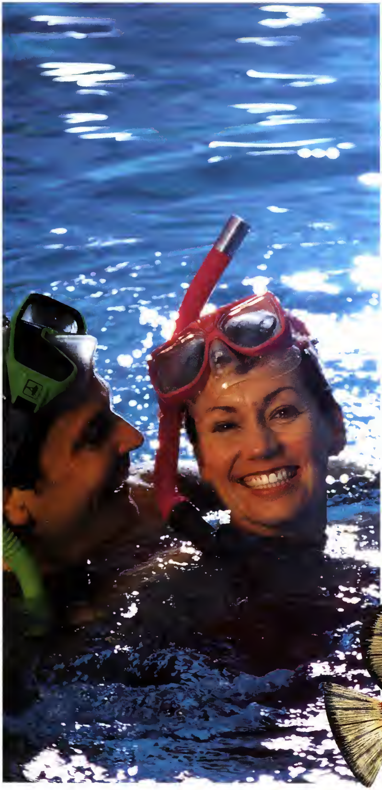
- Set goals. Write a list of short-term (within a year), intermediate (within five years), and long-term goals (more than five years). Devise plans to reach each one and if some are out of reach, then adjust. Start accumulating toward at least three goals.

- Change costly habits. Identify one or two destructive spending habits that may be draining your wallet. Keep a running list of what you spend, then set a goal to cut down. Get money you haven't spent into savings.

- Develop a written budget. Plan before your paycheck arrives and keep a record of expenses. Watch spending to stay within your target (budgeted) amount. Compare your plan with the actual monthly expenses. Base the next month's budget on what you've learned. Keep this up for at least six months. Some financial counselors suggest a yearly cycle.

- Learn money management skills. Take a free money management class. Watch the newspaper for continuing education classes or community seminars. Look for one that covers basics and isn't a sales presentation on the latest investment.

- Save regularly. Use payroll deduction or automatic drafts to save on autopilot. Start small, but regular, contributions. The savings habit will help you build a solid financial future.



Sara, an AAL employee, and her husband are portrayed by professional models.

Name:
Sara M.

Stats:
36; married to Jim; one child

Favorite food:
Pizza

I'd sacrifice my last paycheck for:
My son, my family, absolutely.

My idea of a dream vacation is:
Sitting on the beach in Jamaica with absolutely nothing to do. We honeymooned there and we're going back next year. It's taken us three years to save the money for that.

Generally Jim and I work together when it comes to investments and that sort of thing. He handles the bill-paying just because he's got time. But when it comes to decisions regarding investments and savings and how much is going where, that's a mutual decision. I don't think we could do it any other way.

We have a mutual savings account and a joint checking. We have a savings account for our son, and then we have individual savings. We make decisions together as to how much goes into each account out of our paychecks and we also have 401(k)s and a number of other investments. If large purchases have to come out of the joint savings account, we discuss it together.

The individual savings accounts are there for us to be able to go out and just do what we want to with it, without having to check with the other person. If I wanted to buy Jim an extremely extravagant gift, he couldn't second-guess me because it is my money, so to speak. Or, if I wanted to go out and buy myself a luxury item, then I really don't have to check it out with him. I always have that to fall back on (it gives me a little more freedom to make my own choice about it).

On saving:

We seldom argue about money. And I think it's because we built that freedom to do what we want early on in our marriage. We also decided to put money into 401(k)s, and we generally have agreed on certain amounts of money coming directly out of our checks and going into various savings accounts. We really don't have to think about it. It's always safe. We are good savers, and we have peace of mind because of that. We have looked carefully at what we want in long-term investments and at the amount we might need to be liquid so that we can get to it quickly.

On advice:

You've got to bite the bullet at some point if you haven't established savings patterns early on. Pretty soon it becomes a habit that you don't even think about. One thing that we often do is if one of us receives a raise or a cost-of-living increase, we bank it. We immediately increase the amount that we're depositing into savings so the extra money that we were able to live without previously ends up in savings.

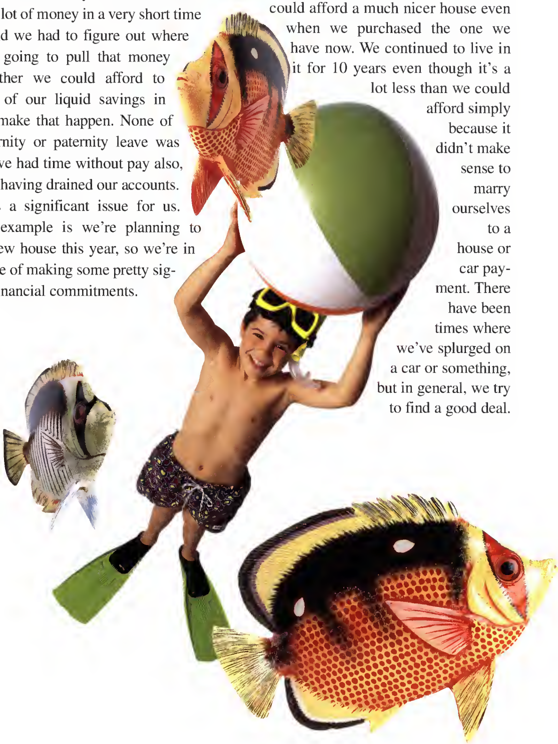
Before you buy the house and before you have a child and get into buying vehicles or start establishing a lifestyle, make decisions about savings and then your lifestyle gets set with what you have left.

On a difficult financial situation:

Deciding to adopt our son was quite a commitment financially. We had to come up with a lot of money in a very short time period and we had to figure out where we were going to pull that money and whether we could afford to drain all of our liquid savings in order to make that happen. None of the maternity or paternity leave was paid, so we had time without pay also, on top of having drained our accounts. That was a significant issue for us. Another example is we're planning to build a new house this year, so we're in the middle of making some pretty significant financial commitments.

On their philosophy:

We chose to live well within our means and continued to do so even when we bought our house. We knew that we could afford a much nicer house even when we purchased the one we have now. We continued to live in it for 10 years even though it's a lot less than we could afford simply because it didn't make sense to marry ourselves to a house or car payment. There have been times where we've splurged on a car or something, but in general, we try to find a good deal.



Get Real, Set Goals

Setting and reaching financial goals isn't easy, but it is essential to your financial health. Many people get discouraged and give up on dreams and goals because they become frustrated. If this sounds like you, the problem may be that you're setting unreachable goals. Goals can be achieved if they are realistic and if you take steps toward them. It's also important to discuss desired goals with your family, instead of trying to force them to accept your goals. When everybody has been invited into a discussion about the goal, it's more likely everybody will work toward it.

There are basically three types of financial goals: short-term, intermediate and long-term. Short-term goals are those we try to reach within one year. Intermediate goals are those we try to reach in one to five years. Long-term goals are those we plan to reach in five years or more. Goals should be specific. They should include both dates and dollars.

Ask Yourself a Few Questions

To set goals, ask yourself the following questions:

- What would I really like to do?
- Where do I want to go with my life?
- What would I like to have?
- What changes would I like to make?

Then, get into the nuts and bolts:

- When do I want to achieve this goal?
- How much will it cost?
- How long will it take?
- Who needs to be involved?
- What do I need to do to get started?

Finally, write down your goal. Make it specific and measurable by including dates and dollars. For example:

By May 2001, I will save $2,400 to go on a Caribbean cruise.

The date and dollar amount will help you get started. Just do the math. Divide the number of months before the cruise into the cost of the cruise ($2,400) and you'll know your monthly savings goal. Whether that goal is $50 or $100 or $1,000 a month, you won't reach it if you don't know what it is. In our example, let's say you've got 24 months before the May 2001 deadline. That means you have to save $100 each month to reach your goal.

You'll also want to label your goal as short-term, intermediate or long-term. This helps you keep track of your goals and keep a balance. If all your goals are short-term, you may not be thinking big enough. And if all your goals are long-term, you might not receive enough positive reinforcement to stay on track toward them.

Put It in Writing

Using your answers to the questions asked earlier, write down your goals. Remember, you have the best chance of reaching goals that are realistic, specific and involve all the people they'll affect.

1. Write one short-term financial goal you would like to achieve.

 ____

2. Write one intermediate-term financial goal you would like to achieve.

 ____

3. Write one long-term financial goal you would like to achieve.

 ____

Something to think about

1. Our attitudes, beliefs, values and goals are revealed in how we save and spend money.
2. Money habits are usually developed by modeling after parents or other adults.
3. Money habits can be changed.
4. We have more control over some expenses than others.
5. Short-term goals should be achieved in one year or less. Long-term financial goals are achieved in one or more years.
6. Financial goals should be realistic, reachable and specific. They should be set with input from everybody they will affect.
7. Being committed to changing attitudes and beliefs can help you achieve goals that reflect positive financial values.

Looking ahead

Next up, in booklet 2, *Boss Your Money Around*, you'll find information on setting up a spending and savings plan in a budget. You'll see that the budget steers you toward your short-, intermediate- and long-term goals.

If you've noticed that credit prevents you from achieving financial goals and you want to decrease credit card debt or better understand how to make credit work more effectively for you, booklet 3, *Credit Can Be Costly*, can help.

If you're already on a smooth financial track, but want your money to work harder for you, booklet 4, *You Really Can Become a Millionaire*, offers ideas about investing. Booklet 5, *The ABCs of Financial Success*, ties all this information together with an alphabet of financial terms in which "A" is not for apple and "B" is not for boy.

You may also want to request a free financial analysis, such as Aid Association for Lutherans' Lifeplan® evaluation, conducted by your AAL representative. This analysis can assist your family with identifying family financial needs and setting goals to meet those needs.

Additional Resources

Resources that will assist individuals and families in assessing their financial situation, as well as their financial attitudes and beliefs, are listed below.

Financial Internet Addresses

For additional interactive information on financial goal-setting, planning, saving and spending, try these Websites:
http://www.quicken.aol.com
http://www.wilsonreport.com/BYF/seven.html

Publications

Olivia Mellan, *Money Harmony: Resolving Conflicts in Your Life and Relationship* (Walker and Company, 1994). A useful guide to help individuals and couples resolve money conflicts. The book is filled with valuable insights and helpful exercises intended to help people move toward "money harmony."

Suze Orman, *The 9 Steps to Financial Freedom* (Crown Publishers, Inc., New York, 1997). An easy-to-read, innovative self-help book. It provides nine steps to help readers identify and understand financial anxieties and fears that can prevent financial security. The book also offers practical steps to assist in gaining power and control over money and money decisions.

Bernard Poduska, *For Love & Money: A Guide to Finances and Relationships* (Wadsworth, Inc., 1993). Targets how spending habits have an impact on relationships, beliefs and other societal issues. It challenges thinking and encourages the reader.

Dave Ramsey, *Financial Peace* (Viking Penguin Press, 1995). A fast-moving financial resource to assist in resolving financial worries while teaching individuals and families the necessary skills to attain a secure financial future.

Thomas Stanley and William Danko, *The Millionaire Next Door* (Longstreet Press, Inc., 1996). Answers the question many working individuals and families ask themselves: "I work so hard—how come I'm not rich?" This book may change your perspective on wealthy individuals and families.

What does money really mean to me? A financial reality check.

Positive attitudes and realistic beliefs about money are key to productive money habits. People with healthy, realistic perceptions about money have better luck at reaching their financial goals. Or is it really luck? They seem to have control over their money rather than letting their money control them. You may want to photocopy this self-test first.

Circle the number that corresponds with the response that most closely identifies how you feel about or practice what is represented in each statement.

Strongly Agree (5) **Agree (4)** **Uncertain (3)** **Disagree (2)** **Strongly Disagree (1)**

1. Money can't buy happiness.	5	4	3	2	1
2. Every family member should have a role in family spending decisions.	5	4	3	2	1
3. People who spend on wants before ensuring the bills are paid are not financially responsible.	5	4	3	2	1
4. I understand my employee benefits and take full advantage of them.	5	4	3	2	1
5. I believe in giving back by contributing time and money to church, charity or my community.	5	4	3	2	1
6. My liquid savings help smooth out the financial ups and downs in life.	5	4	3	2	1
7. Car repairs may be unpredictable, but I still plan for them.	5	4	3	2	1
8. Little bits add up ... so I control my miscellaneous spending.	5	4	3	2	1
9. Comparison shopping is critical, especially when it comes to big-ticket items.	5	4	3	2	1
10. Paying bills on time is paramount for me. It's how I earned my good credit record.	5	4	3	2	1
11. Earning money is only the beginning of financial success. The right spending, saving and investing decisions are even more important.	5	4	3	2	1
12. I contribute regularly to my retirement plan because the key to reaching my goals is to start early.	5	4	3	2	1

Statement	Strongly Agree (5)	Agree (4)	Uncertain (3)	Disagree (2)	Strongly Disagree (1)
13. Credit used without constraint makes you a prisoner to your bills.	5	4	3	2	1
14. "I work hard and deserve to enjoy my money" is a pretty self-destructive attitude when it comes to financial planning.	5	4	3	2	1
15. I have made a written list of all my debts and financial assets within the past 12 months.	5	4	3	2	1
Add up your total score from the **"Financial Reality Check"** here: ____________					

Now determine your "Financial Reality" baseline by finding where your score falls in the ranges that follow.

67 - 75 You have very healthy and realistic attitudes and habits when it comes to money. This series will complement the knowledge you already have, give you additional tips to improve your skills, and strengthen what looks to be a promising financial future.

60 - 66 You have healthy and realistic attitudes and practices when it comes to money. This series will help you carry out more of those things you know you should do.

51 - 59 You have moderately realistic attitudes and practices with money. Learn more about improving your money management habits and financial future through this series. Pay close attention to the section on "setting realistic and achievable goals" on page 21.

41- 50 Your money attitudes and practices may be somewhat unrealistic and may continue to disappoint you unless you make changes. You may have experienced some difficulty in achieving the things you would like. You may feel frustrated, and a little out of control in your financial life. Don't give up. This series is for you! The exercise on setting goals will give you renewed hope in your financial future. The upcoming exercise on spending types will help you examine why you use money the way you do.

40 and below You may have unrealistic money beliefs and practices. In order to have more financial success, you must be willing to change your attitudes and actions when it comes to money. Make a commitment to yourself. You'll learn new skills to replace unsuccessful habits in this series.

What counts most?

The way we spend money says a lot about what it means to us and our personality in general. Money was created as a medium of exchange. These days it represents a lot more than that. For some, it's a matter of security, and for others, it's having "arrived" at a certain level of success.

Financial counselors and psychologists tell us not to expect money to be more than it is. Yet money symbolizes what is important to us, the things and feelings we strive for. Most people never stop to think about it, yet failure to understand issues that cause us to spend can give unhealthy spending habits greater control over our lives.

The exercise that follows will help you examine your spending personality. Place an "X" in front of the statements that reflect your beliefs or lifestyle. Read each question carefully before responding. Leave the space in front of the statement blank if you do not support it. You may want to photocopy this self-test first.

- [ ] 1. When it comes to education, parents should never compromise the best because of cost.
- [ ] 2. A person shouldn't charge more than they are able to pay at the end of the month.
- [ ] 3. I don't save much. I tend to spend more money than I make.
- [ ] 4. Price is not directly related to quality.
- [ ] 5. I give a percentage of my income to church and/or charity.

- [ ] 6. You get what you pay for. Inexpensive products from discount stores are lower quality.
- [ ] 7. If it is worth having, it is worth waiting for.
- [ ] 8. I love to spend money; I'd be a great millionaire!
- [ ] 9. Praise, not money, should be used to reward a child for good grades.
- [ ] 10. Tracking every penny keeps you too focused on money and could drive a person crazy.

- ☐ 11. Choosing the right neighborhood is important to making the right contacts and meeting the right people.
- ☐ 12. A nice cushion in the checking account is a good way to protect yourself from the unforeseen.
- ☐ 13. No matter how much you have, you just naturally want more.
- ☐ 14. Given a choice between good health and a lot of money, I would choose good health.
- ☐ 15. I want enough money to meet my needs and no more.

- ☐ 16. When your salary is twice your age, you certainly have "arrived."
- ☐ 17. Families can't have too much insurance protection.
- ☐ 18. People who work hard deserve to enjoy their income.
- ☐ 19. In the overall scheme of things, time is more valuable than money.
- ☐ 20. Materialism is decaying the moral fabric of our society.

- ☐ 21. I try to buy top-of-the-line products.
- ☐ 22. It's unnerving when the checkbook balance goes below a certain level.
- ☐ 23. I'd rather enjoy my money now than save and wait till retirement when I'm too old to enjoy it.
- ☐ 24. The most memorable gifts are handmade and given from the heart.
- ☐ 25. If I suddenly received a large sum of money, I would give it to my church and others in need.

- ☐ 26. I like to be able to treat my friends.
- ☐ 27. If I received an unexpected lump sum, I would put it into savings and investments.
- ☐ 28. It's hard to imagine how people survived before credit.
- ☐ 29. My money goes to the things that are most important to me.
- ☐ 30. I try not to obsess about money. Other things in life are more important to me.

- [ ] 31. If you have to scrimp and budget, it's best to keep it to yourself.
- [ ] 32. It's a bad idea to go anywhere without some cash.
- [ ] 33. I would be satisfied with my income if I could make about $10,000 more than I make now.
- [ ] 34. Some high-paying jobs just are not worth the stress and endless hours away from family.
- [ ] 35. Worrying about money never helps. Money problems eventually work out.

- [ ] 36. You have to look successful to become successful.
- [ ] 37. If you don't have the money, don't buy it.
- [ ] 38. Most people live paycheck to paycheck with the help of the installment plan.
- [ ] 39. Trying to keep up with others is a self-defeating practice.
- [ ] 40. A budget isn't needed to control spending. If you're spending too much, just stop.

- [ ] 41. Driving a nice car makes me feel good about my situation.
- [ ] 42. Every debt should be paid as soon as possible.
- [ ] 43. One of the hardest things to do is to put off buying something you really want.
- [ ] 44. Bailing out adult family members causes hard feelings and family tension.
- [ ] 45. Things always work out for the best. Spending lots on insurance to protect yourself from everything is a waste.

- [ ] 46. To get ahead, you sometimes have to spend money and go into debt.
- [ ] 47. Every family should have a written budget, just to keep track of dollars.
- [ ] 48. Shopping can be depressing if you can't afford the things you want.
- [ ] 49. We should learn to enjoy things that don't cost money.
- [ ] 50. One shouldn't worry about money; either you have it or you don't.

Notice the yellow, green, red, blue and violet color-coding of the statements. Count the number of statements checked in each color and record them below.

Yellow ____________

Green ____________

Red ____________

Blue ____________

Violet ____________

Which color has the most check marks? Read pages 12 to 16 to see what your color count says about what money means to you.

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The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

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Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

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AID ASSOCIATION FOR LUTHERANS

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[1]Where available.
[2]Underwritten by National General Insurance Companies.

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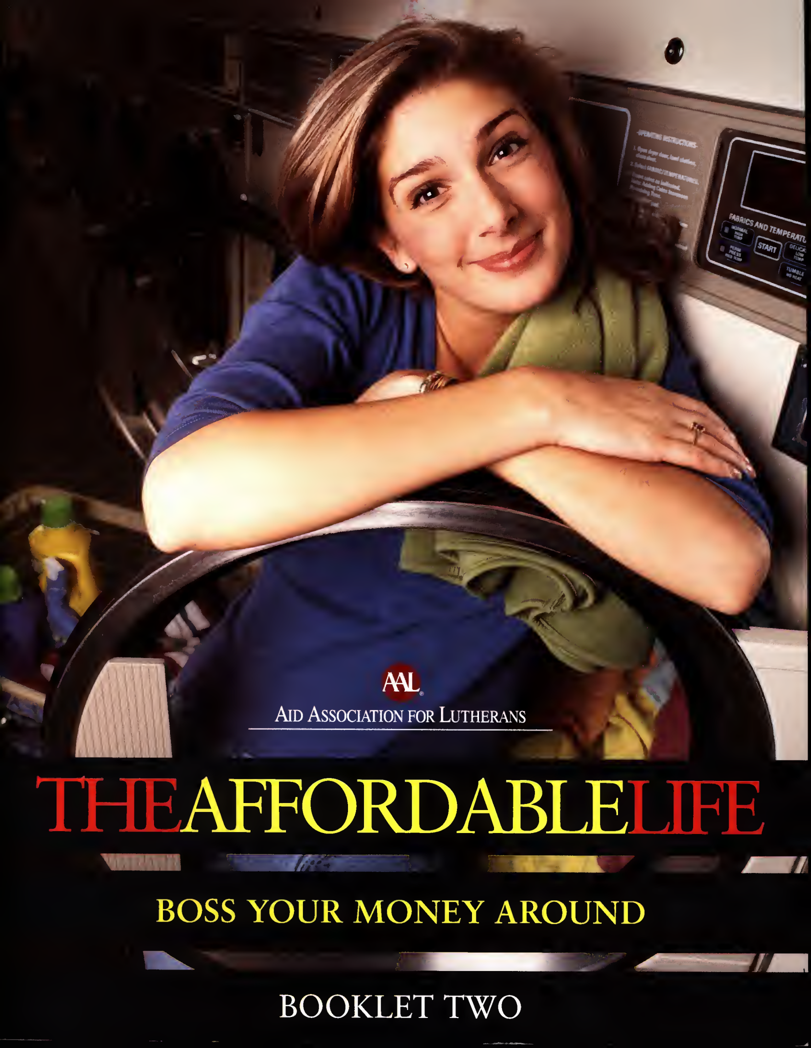


AID ASSOCIATION FOR LUTHERANS

THE AFFORDABLE LIFE

BOSS YOUR MONEY AROUND

BOOKLET TWO

Booklet 2

Boss Your Money Around

Table of Contents

Where am I? Where do I want to go? These are big questions. Questions you've probably asked yourself regarding your faith, your friendships, your work and your relationships. Questions you'd do well to ask yourself regarding your finances, too.

Booklet 2 Introduction

In this second booklet, we'll look at ways to manage your money to help you reach your financial goals. Those goals, whether they're college education for yourself or your kids, a dream house, a month of travel in Europe, starting your own business or retiring early from the business you're in, are all part of the big picture. Your spending and savings plan (a term we'll use interchangeably with budget) is the way to make the big picture a reality.

If you're thinking, "What budget?" then this booklet is definitely for you. But even if you already have a spending and savings plan, read on. There are many different ways of setting up and following a budget, and in this booklet, you'll read about some real people who've been budgeting successfully for a while now, though their systems are different. Some of these real people may make more money than you; some, less. The success they've had and the challenges they've met may help you set up a spending and savings plan that's right for you—one where you're in control of your money and not the other way around. Because no matter how much you make, if you're not the boss of your money, you'll probably come up short.

The information and activities in this booklet will challenge individuals and families to test their knowledge and skills in using basic practices that provide the groundwork for managing their money. This booklet will help you:

- Assess your current financial situation.
- Develop a personal spending and savings plan.
- Compare your household expenses to those of other families.
- Prepare for unexpected expenses.

Basic budgeting self-test

Respond to each question by circling the response you think is correct. Couples are encouraged to complete the test separately and discuss answers afterward. You may want to photocopy the self-test first, or use the copies provided in the back of the booklet. Answers and explanations are at the end of the test.

1. How much take-home pay is recommended for your emergency savings fund? **A.** 1 to 2 months **B.** 3 to 6 months **C.** 12 months

2. Utilities such as electric, gas and water are considered: **A.** fixed expenses **B.** flexible expenses

3. Church contributions should be a fixed monthly expense. **True** or **False**

4. Living from paycheck to paycheck is the result of inadequate income. **True** or **False**

5. A balance sheet is used to give a clear picture of one's financial situation. **True** or **False**

6. A net worth statement and balance sheet are the same thing. **True** or **False**

7. A spending and savings plan differs from a budget because it is more detailed. **True** or **False**

8. Food is usually the largest expense in a budget/spending and savings plan. **True** or **False**

9. Once a spending and savings plan is developed it should never be changed. **True** or **False**

10. The best way to decide how much money to save monthly is to pay all household expenses first, then save most of what is left. **True** or **False**

Self-test answers

1. B. Three to six months of take-home pay is recommended as emergency savings. The purpose of emergency savings is to help families during unemployment or other unexpected events that either drain or interrupt income.

2. B. Utilities are considered flexible expenses. Utilities vary from month to month. Some states offer utility payment plans allowing the same payment to be made monthly. This allows families an opportunity to plan exact dollars for monthly utilities.

3. True. If contributions to your church are important to you, then those contributions and those made to other organizations should be monthly, fixed expenses listed in the family spending and savings plan.

4. False. Usually, living paycheck to paycheck is not the result of inadequate income. It is a failure to manage the income available.

5. True. A balance sheet is developed to give a clear picture of what is owed, owned and how much the family is worth financially.

6. True. A net worth statement and balance sheet are the same thing.

7. False. A spending and savings plan is another name for a budget.

8. False. Housing is usually the largest family expense. However, for individuals living with their parents, transportation (car payment) may be the largest expense.

9. False. A spending and savings plan should be changed as often as necessary to help families reach their goals. There are at least three times a family will need to change their spending and savings plan: when income decreases, when income increases, and when a bill is paid in full.

10. False. The best way to start a successful savings plan is to put money in savings before you pay all your bills. Families that wait until they pay all their bills usually discover there is very little, if anything, left to save. Similarly, if you tithe, you'll want to pay God first by setting your church contribution aside right away.

Key words

Assets are the things you own that are worth money. Assets are grouped into three categories:

1. Monetary assets or cash.
2. Tangible assets or items that can be sold for cash, such as your car or furniture.
3. Intangible assets or stocks, bonds, mutual funds and real estate.

Balance sheet is a financial summary of all assets and liabilities during a specific time.

Emergency fund is money saved in an account for a financial emergency such as a job layoff, costly automobile repairs or illness. An emergency fund should cover three to six months of living expenses. These funds will assist families in maintaining their lifestyle during an emergency.

Liabilities are the amount of debt you carry. In other words, what you owe. Short-term liabilities are paid off in a year or less, such as your utility bills. Long-term liabilities require more than a year to pay off, such as your home loan.

Net worth is the remaining difference when liabilities are subtracted from assets.

Spending and savings plan is another name for a budget. It's a plan for using available money to pay expenses and to reach financial goals.

Where do you stand?

If you're "real people," you probably don't:

- Live extravagantly.
- Belong to an exclusive country club.
- Travel to Paris and Milan for the fall fashion shows.
- Live in a house with more bathrooms than occupants.

And you probably do:

- Pay your bills on time. No late fees for you.
- Buy the ice cream that's on sale at the grocery store.
- Make a Sunday offering at your church.
- Pay modest fees for your own or your kids' sports leagues.

So why do you feel broke sometimes or all the time? Can it really be true that you can't afford your life, as modest and unassuming as that life is?

It's more likely that you just haven't taken stock yet. You don't have a personal balance sheet and a spending and savings plan. You don't know where you stand. And you need to know where you are before you can figure out how to travel somewhere else.

The best way to determine where your money goes is to conduct an annual financial assessment. You do this by developing a personal balance sheet.

The balance sheet, sometimes referred to as a net worth statement, tells you if you're in too much debt, if you're accumulating enough assets to support you in retirement, and if you're on your way to financial independence. A balance sheet will also help you prepare to qualify for a loan to purchase a house, a car, or to start a business. Your balance sheet will consist of three parts: assets, liabilities, and net worth.

Developing a Balance Sheet

Understanding where you stand financially lets you know if the financial goals you set are achievable or if you need to adjust them. Develop your balance sheet in two phases:

- Phase I: Collect all necessary information.
- Phase II: Use the information to develop the balance sheet.

Collecting balance sheet information

Use the tips below to help you determine the dollar value of items owned and owed.

- For cash, use employment pay stubs, checking and savings account deposits, and financial institution statements.
- For jewelry, clothing and furniture, estimate a fair market value for the item. Your estimate should be the amount you think you would get if you had to sell the item. For most items, that will be less than the price you paid for it.
- For automobiles, use the blue-book value provided by an automobile dealership, bank or credit union.
- For real estate or family home, check with a real estate broker or the financial company that financed your home.
- For insurance policies, check with your insurance company.
- For art, coin, stamp or other collections, check with an appraiser.
- For balances on credit accounts or loans, check with the company extending the loan or use the most recent monthly statement from the company.

Use the tips above to complete the balance sheet that follows. Add additional pages as needed. You may also want to photocopy the balance sheet first, or use the copies provided in the back of the booklet.

Balance sheet

Date completed:____________

Monetary Assets

Cash on hand .... $ __________
Balance in checking .... $ __________
Balance in savings .... $ __________
Other (specify) .... $ __________
Other (specify) .... $ __________
Other (specify) .... $ __________

A. Monetary Assets Total $__________

Tangible Assets

Home (current value) .... $__________
Automobile (current value) .... $__________
Personal property (already paid for) .... $__________
Furniture .... $__________
Clothing/Jewelry .... $__________
Appliances/Electronics .... $__________
Collections .... $__________
Other (specify) .... $__________
Other (specify) .... $__________
Other (specify .... $__________

B. Tangible Assets Total $__________

Intangible Assets

Stocks .... $__________
Bonds .... $__________
Mutual funds .... $__________
IRA .... $__________
Life insurance (cash value) .... $__________
Annuities .... $__________
401(k) .... $__________
Pension .... $__________

Other (specify) ....$__________
Other (specify) ....$__________
Other (specify) ....$__________

C. Intangible Assets Total $__________

Liabilities

Short-term (expenses paid off monthly or in less than one year)

Utilities ....$__________
Credit cards (allows a balance to be carried monthly)................................$__________
Charge cards (requires full balance when statement arrives)........................$__________
Short-term loans (specify) ....$__________
Other (specify) ....$__________
Other (specify) ....$__________
Other (specify) ....$__________

D. Short-term Liability Total $__________

Long-term (expenses continuing for more than one year)

Home loan balance ....$__________
Automobile loan balance ....$__________
Student loans..$__________
Other loans (specify)...$__________
Other (specify) ....$__________.
Other (specify) ....$__________

E. Long-term Liability Total $__________

Total Assets (add lines A + B + C) $__________

Total Liabilities (add lines D + E) $__________

Net Worth (subtract liability total from asset total) $__________

Now what should I do with all this information?

Remember, the purpose of a balance sheet is to help you assess where you are financially and to assist you with planning where you want to go in the future. Your net worth is the answer to where you are financially. It gives an overview of your spending and allows you to see if you are on track to reach the financial goals you've set. If you own more than you owe, you have a positive net worth. If you owe more than you own, you have a negative net worth.

Don't panic if you have a negative net worth. Many people in their 20s and 30s do. Your college and mortgage loan liabilities can easily dwarf your assets. That's probably the main reason you have a negative net worth. However, as loan payments are made, net worth improves. Update your balance sheet every year at about the same time so you'll have a marker of how you're doing. As a guideline, try to increase your net worth by at least five percent each year. You do this by decreasing liabilities (what is owed) and/or increasing assets (what is owned).

Pamela, an AAL employee, is portrayed by a professional model.

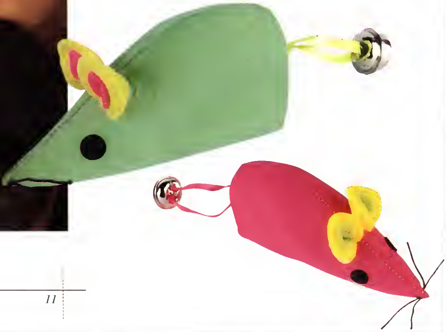
NAME:
PAMELA T.

STATS:
31; ENGAGED TO BE MARRIED; NO CHILDREN.

FAVORITE FOOD:
PIZZA.

I'D SACRIFICE MY LAST PAYCHECK FOR:
MY CATS.

MY IDEA OF A DREAM VACATION IS:
LYING ON A BEACH WITH NOTHING TO DO.



When I first moved to town, on my own, I had rent and everything else. I think that was eight, nine years ago. My brother was living with me so my mom was paying his half of the rent, but not mine. I started working full-time at $5 an hour. I ended up having to buy a used car because mine had died. I put myself on a budget right away. And I lived extremely tight for years —like $25-$40 for the week to do grocery shopping, entertainment and everything else.

On budget mechanics:

I did my budget back then on a piece of paper, and I still do. I didn't have a savings account at that time, either. I was just living paycheck to paycheck. During that time, I ran up some credit card bills, too—generally for clothes. And when I started making a little bit more money, I started paying those off. Once I got those paid off, I kept putting that money into my savings account.

I write down what my paycheck is every other week. And I write down my bills. The first paycheck of the month, I pay my bills. The second paycheck of the month, I pay my mortgage. And I still keep writing that down. I contribute to a 401(k) that comes out of my paycheck automatically. I have another mutual fund that I pay on, as well. But I have it written out.

You know, there are times I don't stick to the plan. Instead of putting money in savings for a certain month, I go shopping. Generally, I try to stick to it. I did just bring budgeting up to my fiancé, and wrote down what we make and what our bills are, and he was just amazed. He said, "I should have this much money left over?" I told him, "Yeah, you should, so where is it going?" He didn't know. I said, "Just try spending a certain amount each week and you should still have this much left over." He said he'd give it a try. He does very well at saving for the future, and I have a hard time with that, so we balance each other out.

On buying her house on a tight budget:

When I was 25, I was getting really sick of living in apartments and of course moving all the time. Once I got my credit card payments paid and I put the money in savings, I said that was going to be for a car payment or a house down payment. At 25, I decided I was going to start looking for a house. I couldn't find anything in my price range and just gave up. Two years later, I just got lucky and called a realtor. She found a house for me within the next week that was in my price range. I think I was only able to go

to around $50,000. But I had money in savings for the down payment. I put down 7 percent.

Then for the next year, I lived tight again. It was $50 a week. And then I started making a little more money again or got raises.

On advice to others:

I have a part-time job one night a week, so that's a little extra money. I always try to put money away from that each week, even if it's $5 in quarters. My vacations aren't extravagant. I spend between $500 and $700. But I can go somewhere and have fun for five or six days.

It's little tricks like that. For example, I save $5 a week for the cats to pay for their food, litter and part of their vet bills. Just watch what you spend your money on. Even those extra dollars you do put in savings or you invest, eventually add up.

Developing a Family Spending and Savings Plan

Budgets are like snowflakes. No two are alike. People have different needs, wants, goals and values. The budget followed by a 31-year-old single woman will be very different from the budget followed by a couple in their 30s who have twin infants. The single woman doesn't need to increase her grocery budget to include formula and diapers. The parents will build up quite a nest egg in the entertainment category because they're not going anywhere for a while.

Keeping track

Everybody's budget will be similar in some ways. For instance, income and expenses are the main headings no matter what your age, marital status or income, and it helps to track expenses in each category for at least one to two months before developing a spending and savings plan. Use your checkbook register, old shopping receipts and credit account statements to determine past household and personal expenses.

For a clear picture of how you and other family members spend money, try tracking your spending by using a pocket notebook to record every purchase made during a one-to-two-month time frame. Label each page as an expense category such as food, clothing, transportation or pet care. For each recording, list the item or service purchased, the date of the purchase and the cost. At the end of the one-to-two-month period, total each category. Tracking expenses will allow a more accurate dollar amount for each category in your spending plan. It will also make you more aware of where your money goes and point to areas that may prevent you from reaching financial goals.

Quick tips

These tips will help you complete the spending and savings plan that follows:

- Income includes salary from your job, child support, alimony, rental property, interest and dividends.
- Expenses include fixed expenses (those remaining the same monthly), and flexible or variable expenses (those that vary every month).
- Savings should be a part of the spending plan. Remember: Put money in your savings before you pay all the bills. If you wait until all other expenses are paid, you may not have money left to save. Savings are usually divided into two categories: regular savings and emergency savings. Regular savings include money set aside on a regular basis for a specific goal, such as retirement, a child's education, a down payment on a home or a vacation. Emergency savings, as discussed earlier, is up to six months of take-home pay to cover living expenses in case of unexpected financial problems.
- Utilities, such as electricity, are usually flexible expenses. They may become fixed expenses by contacting your utility company and requesting a plan that will allow an estimated monthly payment. The advantage is, you'll know your monthly utility costs.
- Insurance is often considered a periodic budget expense because premiums can be paid once or twice a year instead of monthly. If your insurance payment is a periodic expense, determine the yearly cost; then, divide the yearly cost by 12 to determine the amount to save each month. This will help you make sure you have enough money saved to pay your insurance premium when it's due.
- Credit card debt is a big budget expense for many people. As a rule, this expense should not total more than 20 percent of the household net income remaining after rent or mortgage is paid (see booklet 3)*. If your debt percentage is 20 to 25 percent you're in the warning zone. If it is more than 25 percent you're in the credit danger zone and you should stop using your credit cards.

Family spending and savings plan

The form on the next page can be modified to include categories specific to your household. The idea is that this be an accurate picture of your income and expenses. Once you have the picture in hand, you can focus on adjusting your income or expenses, should that be necessary. But you won't know where you can make adjustments until you write it down and find out where you are. You may want to photocopy this form first, or use the copies provided in the back of the booklet.

*Source: The Washington Post, January 31, 1999.

Monthly plan was developed on:______________

Monthly Net Income (include all income sources)

Job income	$________
Job income	$________
Interest income	$________
Child support	$________
Alimony	$________
Other (specify)	$________
Other (specify)	$________
A. Income Total	**$**________

Monthly Savings Expenses

Monthly savings	$________
Regular savings	$________
Emergency savings	$________
Other (specify)	$________
B. Savings Total	**$**________

Monthly Fixed Expenses (usually the same dollar amount each month)

Church contributions	$________
Mortgage/Rent	$________
Property taxes	$________
Child care	$________
Automobile	$________
Automobile insurance	$________
Health insurance (dental, medical)	$________
Life insurance	$________
Disability insurance	$________
Renter/Mortgage insurance	$________
Retirement plans	$________
Cable	$________
Student loans	$________
Other (specify)	$________
Other (specify)	$________
Other (specify)	$________
C. Fixed Expense Total	**$**________

Flexible Expenses (payment amounts may vary monthly)

Food ....$__________
Utilities (gas, water, electricity) ....$__________
Telephone ....$__________
Clothing ....$__________
Laundry/Dry cleaning ....$__________
Other household expenses ....$__________
House repairs ....$__________
Transportation (gas, repairs, maintenance)...$__________
Public transportation ....$__________
Education expenses ....$__________
Medical and dental (prescriptions, services, supplies, etc.) ....$__________
Pet care ....$__________
Entertainment ....$__________
Vacation...$__________
Gifts...$__________
Credit card payments ....$__________
Charge card payments...$__________
Personal care (hair, cosmetics, manicures, etc.) ....$__________
Miscellaneous (magazines, hobbies, banking fees, personal supplies, etc.) ....$__________
Charities ....$__________
Other (specify) ....$__________
Other (specify) ....$__________

D. Flexible Expense Total $__________

Income Total (the amount on line A) $__________

Expense Total (add lines B + C + D) $__________

Discretionary Income (subtract expense total from income total) $__________

Stick to It

Your personal spending and savings plan is the most effective way to identify and control your family spending habits. If the total left after subtracting expenses from income is positive, you're on your way to financial success. Your discretionary income (money left over after all expenses are paid) can be saved, used to purchase items on the family wish list or invested. When you invest it, your money has the potential to grow faster than if you save it in banks or credit union accounts, but investments carry risk, too. If you're interested in investing a portion of your discretionary income, see booklet 4.

If the total left after subtracting expenses from income was negative, don't panic. It will take time to get income and expenses balanced. You may need to reevaluate your current spending and come up with creative ways to increase income and decrease debt. Review your spending plan to see if there are areas where you and your family could decrease expenses. Consider how often you eat out, order pizza, go to the movies or treat yourself. Try not to issue commands about the family budget. Instead, invite others to offer suggestions about places to save money. Family members are more likely to support ideas in which they had input.

Batten down the hatches

If you've already cut to the bone and need to increase your income instead, consider these suggestions:

- Use hobbies and skills such as crafts, woodworking, sewing, baking and photography to supplement income.
- Look for part-time job opportunities.
- Work overtime if possible.

Consider the following suggestions to decrease expenses:

- Barter with friends for services such as child care, haircuts or manicures, instead of paying for them.
- Plan meals and shop with a list.
- Use coupons.
- Take lunch and snacks to work.
- Shop discount outlets and thrift stores.
- Join or start a car pool.

Your spending plan will only work if you stick to it. It also helps to be patient with yourself and with other family members. Track your progress monthly and be prepared to change or adjust your budget as needed. Experiment with ways to help your spending plan work. For instance, establish a bill-paying center that includes all the necessary materials needed to pay bills and track spending, such as a calendar (to track due dates and paydays) and a calculator. Devote a specific time each week to paying bills.

Sometimes seeing is believing

You might also try using the envelope system for tracking expenses that are difficult to manage. In the envelope system of budgeting, you place a specific budgeted amount of cash in the envelope labeled with the expense category for which it is to be used. An envelope labeled transportation might have $50 to cover gasoline costs for the month. Another envelope may contain $25 to cover monthly lunch costs. When the envelope is empty, that's it. There's no more money to spend in that category. You can transfer funds from envelope to envelope, but you can't get more money from the household account.

One of the biggest benefits of the envelope system is that it's tangible. You'll see the money dwindle as the month goes on. You won't need reminders that you're working with real dollars when those real dollars are tacked to your bulletin board or stuck to your refrigerator door.

Marcie and her family are portrayed by professional models.

NAME:
MARCIE K.

STATS: 34;
MARRIED TO ROBB;
INFANT TWIN DAUGHTERS.

FAVORITE FOOD:
ICE CREAM

I'D SACRIFICE MY LAST PAYCHECK FOR:
MY FAMILY.

MY IDEA OF A DREAM VACATION IS:
HAWAII, WITHOUT THE TWINS.

When we married, we were both pretty well established in our own financial situations. I had a home. We each had our own budgets and it was really hard to merge them. I was used to doing my own thing with my own money, making my own financial decisions. My husband was, as well. You know, we weren't right out of college with our first jobs.

We took a financial class. It was set up through a consumer credit council for people who are in debt. The idea is to consolidate the debt, get it down and then require people to learn how to budget, to live within their means. We really didn't have that situation. Neither of us had a lot of debt, but we wanted to take the class to merge our incomes and find a way to start to live as a family on a family budget.

So we developed a budget that helped us avoid unnecessary or very high debt like credit card debt, which seems to be a big problem nationwide. And we also wanted to be able to save for a newer home, a bigger home. Those were the immediate financial goals that we wanted to achieve together.

On setting goals:

The program really helped us find a way to set savings goals for long-term investing. Then, secondly, to realize some short-term financial goals, and finally, to help us develop a plan for long-term financial goals—retirement or the education of our children. Then, in the process, we really wanted to contribute to our church regularly—but how would we do that?

Now we have been able to reach that goal and still have the things we had set up for ourselves. We have been in a new home for a little over three years. We have some money invested in stocks and mutual funds and a 401(k) plan and some things like that.

On a change in income:

[With the twins arriving] we needed to go down to one income for a period of time. We had to say, "What can we cut out?" While we had some room for luxury in there, we didn't think we had that much room.

I think God has really helped in that way, providing for us. We have learned to live without a lot and not feel deprived. I think one of the big reasons we were able to do that is we do not have a lot of debt. Having done that five years ago, having made that decision to avoid debt, we just made the best decision for our family today.

There were other sacrifices involved. We each developed an equal allowance that we would get, over and above paying all our bills. We each take "x" amount of dollars every payday and do whatever we

want with it. It's our own money. That was very small in the beginning, but we would give ourselves raises. However, when I quit work we had to agree to cut back on our personal money.

On when to adjust a budget:

We don't have a set schedule to readjust it. When our bills change, we need to readjust it. Cable just went up and I was ready to get rid of it but my husband really wants it. I'm not paying any more! He'll have to use his personal allowance.

With the babies here, what we're going to do for a couple of months is track what we're spending on formula, diapers and things like that. Then we'll create a new budget based on what we've been spending. First you need to understand where your money is even going. From there, you create a reasonable budget.

Your lifestyle changes, bills change. When we moved to our new home, it required an increase in house expenditure and we needed to redo our budget. We sat down before we ever even looked at homes and said, "What can we afford?" We didn't let the bank tell us what we could afford, because they would have put us in a much higher debt situation.

On the envelope system of budgeting:

We deal in cash as much as possible for daily expenses, like running into a department store for deodorant and lunch and things. We have an envelope for our groceries. We have an envelope for what we call entertainment—movies, going to a play or something like that. We have an envelope that we use for eating out.

We set it up on a bi-weekly basis because that's how we're paid. If we want to go out for dinner tonight, but there's no money in that envelope, we either say we can't go, or we use the extra money in entertainment. Sometimes we say, "I'll treat out of my own personal money, that's how badly I don't want to cook tonight." At the grocery store when you only have $50 in the envelope, it helps you skip stuff you don't really need.

Monthly bills, we pay by check. We each have our own checking account and we have a sheet of paper that lists the bills and the amounts due (we actually both have it on an index card in our wallets). We know every two weeks this much needs to go into this account. They're joint checking accounts, but Robb uses one to pay certain bills and I use one to pay certain bills. So once a month I can pay electric and gas and cable and things like that.

On advice to others:

Sometimes people fall into the trap of thinking, "We're already $20,000 in debt. What's another $10,000?" It can really spiral. Then, of course, you're paying on your interest rather than on the balance and that spirals. Getting out of the debt can have a very positive effect. When Robb and I set up savings goals, we didn't have a lot of debt, but it was just exciting to see how quickly that money would add up and we'd get interest on it. It got us to achieve goals sooner because we'd say, "You know what? We have an extra $100 this month. Let's put it in savings rather than blowing it on a fancy dinner."

Some friends of mine who are in a lot of debt just continue to rack up debt. But one of them went into this program and she said, "Gosh, you're right. I've paid off this loan and this loan and I can't wait to get this one paid off." Now she's seeing the positives of paying them off. And it gets you to do it quicker because you feel so good about it. It's catchy both ways.

So How Are You Doing?

Sometimes it can be helpful to see where you stand compared to other real people living on a similar income. If everybody is spending a lot less than you are on entertainment and transportation, maybe you need to stay home for the next few Saturday nights and join a car pool next Monday morning. The U.S. Household Budget Averages chart below can help you make those comparisons.

As you look at the chart, try to use the information as a guide, not as a rebuke or as an excuse. There may be good reasons why your transportation costs are higher than the national average. Values, goals, age, family size and income are some of the factors that will affect household spending.

U.S. Household Budget Averages

Expenditures	Income Levels		
	$15,000–$29,999	$30,000–$49,999	$50,000–$70,000+
Food	15%	13%	12%
Housing	32%	30%	30%
Utilities	8%	6%	5%
Clothing	4%	4%	5%
Transportation	18%	20%	18%
Health care	7%	5%	4%
Entertainment	4%	5%	5%
Insurance/Pensions	5%	10%	14%
Cash contributions	3%	3%	3%
Misc./Other	5%	5%	5%

Source: Adapted from The Bureau of Labor Statistics Consumer Expenditure Survey, 1997.

You can determine your household percentages by dividing the monthly budgeted amount in each category by your monthly income. For example:

$250 monthly food expense divided by $1,500 monthly income = 17 percent of monthly income for food.

What percentage of your income goes to ...

Use the formula on page 24 and your spending and savings plan to figure out your percentages in the major categories listed below. You may want to photocopy the list first or use the copies provided in the back of the booklet.

Food .... ______%

Housing (mortgage, rent, insurance, property taxes, repairs) .... ______%

Utilities (telephone, electricity, gas, water) .... ______%

Clothing and clothing service .... ______%

Transportation (loans, insurance, gas, repairs, public transportation) .... ______%

Health care (insurance, prescriptions, supplies, services) .... ______%

Entertainment .... ______%

Insurance/Pension (life, disability, retirement plans) .... ______%

Cash contributions (church, charities).......... ______%

Miscellaneous/Other .... ______%

Preparing for the unexpected

Nobody gets through life without some good and bad surprises. Bad news (such as illness or job loss) or good news (such as a new baby) can turn a two-income household into a one-income household or a one-income household into a no-income household. Surprises become easier to handle when your finances are in order. Your spending and savings plan is the foundation of being prepared.

Your plan should have a savings category for emergencies, and a portion of each paycheck should go into this fund until you have three to six months' income saved. Emergency savings funds should not be used unless there is an emergency. You need to define "emergency" before there is one, so you're not tempted to raid this fund for something you want. Nobody will argue that your hospitalization for appendicitis is an emergency. But your deep desire to quit your job and go back to school full-time may not be. Everybody is different. The important thing is that you—or you and your spouse—decide ahead of time how you define an emergency.

Looking ahead

As you work on your spending and savings plan, you may have questions about your current AAL products, or you may want to learn more about other AAL products and services. Your AAL representative can help with these.

Additional resources

Larry Burkett, *The Family Budget Workbook: Gaining Control of Your Personal Finances* (Northfield Publishing, 1993). A budget guide that addresses many financial issues from the viewpoint of your Christian values.

Ronald J. Chewning, *Becoming Money Wise* (Concordia Publishing House, 1998). A simple, straightforward guide to incorporating Christian stewardship practices into every area of your financial life.

Judy Lawrence, *Budget Kit: The Common Cent$ Money Management Workbook* (Dearborn Financial Publishing, 1996). This workbook (also in CD-ROM) provides a common-sense approach to identifying all the categories to consider as you build a personal family budget.

Judy Lawrence, *The Money Tracker* (Dearborn Financial Publishing, 1995). A pocket-sized book that provides directions and guidelines on tracking spending. Detailed spending categories are included.

Barbara O'Neill, *Saving On a Shoestring* (Dearborn Financial Publishing, 1995). An easy-to-read resource that provides instructions on how to cut expenses, reduce debt and stash cash for the future.

Dave Ramsey, *The Financial Peace Planner* (Penguin Books, 1998). A step-by-step, easy-to-read guide on developing family finances by assessing your current financial situation, tracking finances and learning healthy financial habits.

David Scott, *The Guide to Personal Budgeting* (The Globe Pequot Press, 1995). Provides clear instructions and examples on how to stretch dollars through wise money management.

Basic budgeting self-test

Respond to each question by circling the response you think is correct. Couples are encouraged to complete the test separately and discuss answers afterward. You may want to photocopy the self-test first. Answers and explanations are at the end of the test.

1. How much take-home pay is recommended for your emergency savings fund? **A.** 1 to 2 months **B.** 3 to 6 months **C.** 12 months
2. Utilities such as electric, gas and water are considered: **A.** fixed expenses **B.** flexible expenses
3. Church contributions should be a fixed monthly expense. **True** or **False**
4. Living from paycheck to paycheck is the result of inadequate income. **True** or **False**
5. A balance sheet is used to give a clear picture of one's financial situation. **True** or **False**
6. A net worth statement and balance sheet are the same thing. **True** or **False**
7. A spending and savings plan differs from a budget because it is more detailed. **True** or **False**
8. Food is usually the largest expense in a budget/spending and savings plan. **True** or **False**
9. Once a spending and savings plan is developed it should never be changed. **True** or **False**
10. The best way to decide how much money to save monthly is to pay all household expenses first, then save most of what is left. **True** or **False**

Self-test answers

1. B. Three to six months of take-home pay is recommended as emergency savings. The purpose of emergency savings is to help families during unemployment or other unexpected events that either drain or interrupt income.

2. B. Utilities are considered flexible expenses. Utilities vary from month to month. Some states offer utility payment plans allowing the same payment to be made monthly. This allows families an opportunity to plan exact dollars for monthly utilities.

3. True. If contributions to your church are important to you, then those contributions and those made to other organizations should be monthly, fixed expenses listed in the family spending and savings plan.

4. False. Usually, living paycheck to paycheck is not the result of inadequate income. It is a failure to manage the income available.

5. True. A balance sheet is developed to give a clear picture of what is owed, owned and how much the family is worth financially.

6. True. A net worth statement and balance sheet are the same thing.

7. False. A spending and savings plan is another name for a budget.

8. False. Housing is usually the largest family expense. However, for individuals living with their parents, transportation (car payment) may be the largest expense.

9. False. A spending and savings plan should be changed as often as necessary to help families reach their goals. There are at least three times a family will need to change their spending and savings plan: when income decreases, when income increases, and when a bill is paid in full.

10. False. The best way to start a successful savings plan is to put money in savings before you pay all your bills. Families that wait until they pay all their bills usually discover there is very little, if anything, left to save. Similarly, if you tithe, you'll want to pay God first by setting your church contribution aside right away.

Balance sheet

Date completed:____________

Monetary Assets

Cash on hand .... $ _________
Balance in checking .... $ _________
Balance in savings .... $ _________
Other (specify) .... $ _________
Other (specify) .... $ _________
Other (specify) .... $ _________

A. Monetary Assets Total $_________

Tangible Assets

Home (current value) .... $_________
Automobile (current value) .... $_________
Personal property (already paid for) .... $_________
Furniture .... $_________
Clothing/Jewelry .... $_________
Appliances/Electronics .... $_________
Collections .... $_________
Other (specify) .... $_________
Other (specify) .... $_________
Other (specify .... $_________

B. Tangible Assets Total $_________

Intangible Assets

Stocks .... $_________
Bonds .... $_________
Mutual funds .... $_________
IRA .... $_________
Life insurance (cash value) .... $_________
Annuities .... $_________
401(k) .... $_________
Pension .... $_________

Other (specify) .... $__________
Other (specify) .... $__________
Other (specify) .... $__________

C. Intangible Assets Total $__________

Liabilities

Short-term (expenses paid off monthly or in less than one year)

Utilities .... $__________
Credit cards (allows a balance to be carried monthly) .... $__________
Charge cards (requires full balance when statement arrives) .... $__________
Short-term loans (specify) .... $__________
Other (specify) .... $__________
Other (specify) .... $__________
Other (specify) .... $__________

D. Short-term Liability Total $__________

Long-term (expenses continuing for more than one year)

Home loan balance .... $__________
Automobile loan balance .... $__________
Student loans .... $__________
Other loans (specify) .... $__________
Other (specify) .... $__________
Other (specify) .... $__________

E. Long-term Liability Total $__________

Total Assets (add lines A + B + C) $__________

Total Liabilities (add lines D + E) $__________

Net Worth (subtract liability total from asset total) $__________

Monthly plan was developed on:____________

Monthly Net Income (include all income sources)

Job income .... $________
Job income .... $________
Interest income .... $________
Child support.. $________
Alimony .... $________
Other (specify) .... $________
Other (specify) .... $________

A. Income Total $________

Monthly Savings Expenses

Monthly savings .... $________
Regular savings.. $________
Emergency savings .... $________
Other (specify) .... $________

B. Savings Total $________

Monthly Fixed Expenses (usually the same dollar amount each month)

Church contributions.. $________
Mortgage/Rent .... $________
Property taxes .... $________
Child care .... $________
Automobile .... $________
Automobile insurance.. $________
Health insurance (dental, medical).. $________
Life insurance .... $________
Disability insurance .... $________
Renter/Mortgage insurance.. $________
Retirement plans .... $________
Cable.. $________
Student loans.. $________
Other (specify) .... $________
Other (specify) .... $________
Other (specify) .... $________

C. Fixed Expense Total $________

Flexible Expenses (payment amounts may vary monthly)

Food ....$_________
Utilities (gas, water, electricity) ....$_________
Telephone ....$_________
Clothing ....$_________
Laundry/Dry cleaning ....$_________
Other household expenses ....$_________
House repairs ....$_________
Transportation (gas, repairs, maintenance)................................$_________
Public transportation ....$_________
Education expenses...$_________
Medical and dental (prescriptions, services, supplies, etc.) ....$_________
Pet care ....$_________
Entertainment ....$_________
Vacation...$_________
Gifts...$_________
Credit card payments ....$_________
Charge card payments..$_________
Personal care (hair, cosmetics, manicures, etc.)..........................$_________
Miscellaneous (magazines, hobbies, banking fees, personal supplies) ....$_________
Charities ....$_________
Other (specify) ....$_________
Other (specify) ....$_________

D. Flexible Expense Total $_________

Income Total (the amount on line A) $_________

Expense Total (add lines B + C + D) $_________

Discretionary Income (subtract expense total from income total) $_________

What percentage of your income goes to ...

Use the formula on page 24 and your spending and savings plan to figure out your percentages in the major categories listed below.

Food .... ________%

Housing (mortgage, rent, insurance, property taxes, repairs) .... ________%

Utilities (telephone, electricity, gas, water) .... ________%

Clothing and clothing service .... ________%

Transportation (loans, insurance, gas, repairs, public transportation) .... ________%

Health care (insurance, prescriptions, supplies, services) .... ________%

Entertainment .... ________%

Insurance/Pension (life, disability, retirement plans) .... ________%

Cash contributions (church, charities)............ ________%

Miscellaneous/Other .... ________%

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AID ASSOCIATION FOR LUTHERANS

THE AFFORDABLE LIFE

CREDIT CAN BE COSTLY

BOOKLET THREE

Booklet 3

Credit Can Be Costly

Booklet 3 Introduction

How many credit cards are in your wallet right now? Two? Four? More? Do you remember when you applied for your first credit card? Were you about 20 years old? Your parents might answer 25. Kids today might answer 16.

Times change, but the rules of credit don't. If you fail to use credit properly, you'll pay big. A bad credit reputation can follow you for a long time. If you use it properly, credit can help you reach financial goals such as a house, a car, an education. You might not realize that credit comes in forms other than credit cards. Medical, telephone, water, gas and electric service are all extended to us on credit. You use these services, then pay for them upon receipt of a bill. Your mortgage and student loan are also forms of credit.

This third booklet will examine ways to be smart about credit so that it expands the boundaries of your affordable life. You'll see that the key is to use credit wisely so that it doesn't weigh you down with things you can't afford while keeping things you need (a home, a car, insurance) out of your reach.

Just as in booklets 1 and 2, we'll include true stories of real people. You'll see how they've used credit wisely or solved a credit problem. Some of them may make more money than you, some less, but all of them have bills just like you do. This booklet will help you:

- Rate your credit use.
- Understand the advantages and disadvantages of credit.
- Determine how much debt is too much debt.
- Learn how to get out of debt.
- Recognize the importance of a good credit report.

Rate Yourself

This self-test will help you determine how you use credit. Respond to each question by circling the response that best describes how you feel. You may want to photocopy this self-test first, or use the copies provided in the back of the book. Scoring and explanations are at the end of the test.

Strongly Agree (5) **Agree (4)** **Uncertain (3)** **Disagree (2)** **Strongly Disagree (1)**

1. I use credit to pay for most purchases.	5	4	3	2	1
2. I usually carry an unpaid balance on credit cards.	5	4	3	2	1
3. I have never checked my credit report.	5	4	3	2	1
4. I often use credit cards for cash advances.	5	4	3	2	1
5. I do not know the interest rate I am being charged on my credit cards or loans.	5	4	3	2	1
6. I prefer shopping with credit cards instead of cash because I can pay for my purchase later.	5	4	3	2	1
7. I have more than two credit cards.	5	4	3	2	1
8. You really don't have to do much planning when shopping with credit.	5	4	3	2	1
9. Having a "Gold" credit card is prestigious. Everyone should have one.	5	4	3	2	1
10. It is OK for a person to use several credit cards as long as monthly minimum payments are made on time.	5	4	3	2	1

Rate Yourself summary

To score the activity, total the numbers you circled for each question. (Totals will range from 10-50.) There are no clear right or wrong responses, but some responses indicate more positive credit behavior than others. For instance, a low score (25 or less) indicates that you tend to be a cautious and attentive credit user. A higher score (26 or more) means you may want to look more closely at how you use credit.

The brief comments that follow will help you determine if your responses to the above questions will help you meet your financial goals.

1. Plan your credit use. Don't use credit for items such as food and gas where the payment will outlast the product unless you use the card solely for convenience and pay the balance in full each month. Remember, unless you pay the balance in full each month, you are paying a premium on the items you purchase.

2. Avoid credit interest charges. Pay in full when your statement arrives.

3. Check your credit report every two years to avoid costly mistakes. Information on credit reporting agencies can be found on pages 22 and 23.

4. Using credit cards for cash advances is very costly. A higher interest rate is charged for cash advances.

5. You should pay attention to your credit card's interest rate. High interest rates mean more money will go to the credit lender. Low interest rates mean less money is owed to the lender. Make sure you know what interest rate you are being charged.

6. Credit offers many advantages if used wisely. It means you don't have to write checks or carry large sums of money. It also allows shoppers to purchase items on sale without cash and provides ease in exchanging or returning unwanted or unneeded items. Remember, purchases made on credit, even if bought on sale, may not end up being bargains once interest is added, especially if only minimum payments are made.

7. Having more than two credit cards can be a temptation to overextend yourself. Too many credit cards may prevent approval of major purchases such as a home or automobile because creditors see several credit cards as potential debt.

8. Spontaneity is refreshing but it doesn't make you a wise consumer. When you shop without a plan and feel your credit card gives you complete spending freedom, you could be facing a financial headache later by running up large debts and spending beyond your means.

9. Gold cards usually carry higher annual fees, so they're more costly than regular credit cards.

10. Using several cards and only making the minimum payment can be signs that you have a credit problem or will soon. It's recommended that you use only one or two credit cards. Pay the entire balance monthly or make more than the minimum payment. And, use credit only when necessary.

Credit in Action

The following scenarios show how credit translates to dollars and cents. In each example, the purchase price and interest remain the same, but the monthly payment is increased.

How Credit Translates to Dollars and Cents

Purchase price	**$2,000**	**$2,000**	**$2,000**
Interest rate	18%	18%	18%
Monthly minimum payment	$40	$50	$60
Length of time to pay in full	7 years and 8 months	5 years and 2 months	3 years and 9 months
Total interest amount paid during this time	$1,724.49	$1,077.75	$793.78
Total cost of the item using credit is	**$3,724.49**	**$3,077.75**	**$2,793.78**

Lynn and her friend are portrayed by professional models.

NAME:
LYNN W.

STATS:
24; SINGLE; NO CHILDREN

FAVORITE FOOD:
CHOCOLATE

I'D SACRIFICE MY LAST PAYCHECK FOR:
A HUSBAND.

MY IDEA OF A DREAM VACATION IS:
ONE THAT SOMEBODY ELSE PAYS FOR.

PERSONAL MOTTO:
THE DESIDERATA.

I graduated from college and got a decent job. Then I got an apartment by myself. [My parents] would have taken me back home, but it was very important to me to be independent. I was an only child. They had given to me all of my life. What I should have done is found a roommate because it would have been half as expensive every month.

I got out of college, and all of a sudden, like, oh my goodness, I need dishes and pots and pans. And I need work clothes. And I want to go do all this fun stuff with my friends because I have a job now, I should be able to afford this. And I want this stuff for my house.

On realizing she wasn't happy about how she used credit:

Pretty soon, here I was with about $5,000 worth of credit card debt. It was my only debt but, oh my goodness. If I wanted to go buy a new car right now, I couldn't afford [credit card] payments and a car payment. I finally just hit a point where I needed to do something about it.

I don't know exactly what made me see it. I had $3,000 on one credit card and $2,000 on another. The $2,000, part of it was my boyfriend's, but that's another story. I finally sat, and I looked at this and said, "This is dumb, I can't do this. If I spent $2,000 every two months on a credit card, I would be so far in debt, it'd be like a house."

I went to one of our loan officers at the credit union and asked to put this into a consolidation loan and make some hefty payments and try and get this paid off in a year. That's exactly what I did. The consolidation loan payment is slightly lower than what my credit card interest payment was. I read a couple of financial books. One of the biggest things I got out of it was rather than try and save money, if you have all of this debt, you're actually paying yourself more interest by getting rid of the debt first, rather than try and stack up this huge savings pile and get rid of debt. I started throwing $400 a month into paying this debt. I'm working like crazy to pay off this debt and trying not to use the credit card anymore.

On getting rid of a credit card:

I'm a marketing director for the credit union. I have to know what it is that we do. I talk to our loan officers a lot. When I first started working there, I probably had 10 credit cards listed on my credit report. I had cut them up but never canceled them.

One of the first things I learned from our loan officers was to get these off, because that's all potential debt. You go in to a loan officer. You want to buy a car or a house, and they see that there's maybe $50,000 of potential debt. They don't know or care that you cut up the cards. They just know you have the accounts. So our loan officer said, keep one or two

cards, and then make sure you carry a balance for a while, even if it's small, because it shows you have credit. If you get a credit card and pay it off every month, it doesn't give creditors a true picture of your credit history.

On how she handles money now:

I have almost everything set up through payroll deduction, which is a big help. My credit card payment is all on payroll deduction and I have a 401(k) that's automatically deducted. I set a certain amount aside that I know I need for rent and bills, and that goes right into my savings account right out of my paycheck. I have another, called a Christmas Club account, actually my secret saving-for-a-car-someday fund, like $20 out of every paycheck. It's a higher-interest account, and it gets taken out right away. The payroll deduction helps a lot. Whatever is left goes into my checking account and that's what I have to work with for food and gas and fun.

On using credit to buy a car:

I always paid much more than I owed on my monthly bill. That was never a problem. I have a wonderful credit rating. I just looked at it and said, this is stupid. If [the credit card] was paid off, I would have that much just to spend in life anyway. I just started feeling a lot of pressure.

My car is not going to last forever. I drive 40 miles to work and 40 miles back every day. So that's a big concern for me. I plan on driving this car until it looks like the Blues Brothers car and falls apart. It's a fine little car. But it has 170,000 miles on it.

This $400 a month that I pay on my loan now, I would see probably $200 or $300 of that being a car payment. The extra $100 would be stuck away in savings. I do save a little now, but I'd like to start saving more. I'll get married someday. It'd be nice to have something when I do. At that point I'd start looking into mutual funds and things like that.

On advice to others:

I'm still fixing my problem, but basically, the hardest thing for a lot of us is, we grew up in our parents' homes, and they had lots of nice things. I was under the impression that when I graduated from college I was supposed to have this wonderful job, and why shouldn't I have a great lifestyle? The biggest advice I could give is live within your means. It sounds very trite but as soon as you start thinking, "I can use this credit card and I can pay it off later," then you start justifying things. For some reason, I could justify spending $300 shopping for something when I didn't have that money because it went on a credit card.

I have a few friends who are still in college. The biggest thing I tell them is stay away from the credit cards. Actually, [they should] get a credit card, but get a low limit. Get a credit card with maybe a $500 to $1,000 limit so that you can use it when you need it, but you can't charge $5,000 worth of stuff.

It wasn't until I got out of college that I charged stuff. I had a [joint] credit card all through college with my father. I was threatened with death if there was ever a balance on it. It wasn't until I graduated, and got a credit card [where I] work, that it was like, whee, I could do this.

I feel good that I caught it when it was getting bad. I feel good that I knew that I had to do this. I really hope this has changed my outlook on using a credit card. I would really like to pay it off and stick it away somewhere. That's my goal. I can still do things and have fun, but it's with the money that I already have.

Key words

Monthly living expenses are basic, recurring family household expenses such as rent, mortgage, utilities, insurance, food, and transportation.

Credit report is a record of how responsible and reliable you are when it comes to using credit. Creditors require this information before extending credit. It may also be called a credit file or credit history.

Credit reporting agency holds the information about your credit responsibility. There are three major credit-reporting agencies in the United States: Trans Union, Equifax and Experian (formerly TRW). Mailing addresses, phone numbers, and Internet addresses for each are listed in the back of this booklet.

Recognizing Credit Trouble

Credit trouble doesn't usually come in a flash flood. It creeps, like water rising slowly, so that you might not even notice it until your shoes are soaked. The key is to stay awake so that you see trouble coming and stop it before you're knee-deep. The list below offers some examples of behavior that could indicate the water is rising. If you are experiencing a few of the problems noted in it, use it as a warning to climb to higher ground.

Read each question below. Place a check next to those that describe your credit behavior. Have you recently:

- ☐ 1. Applied for new credit loans before old loans are paid in full?
- ☐ 2. Made only the minimum payment on credit accounts?
- ☐ 3. Charged regular monthly living expenses such as rent, utilities and food when you knew you couldn't pay the bill in full that month?
- ☐ 4. Used credit cash advances to pay regular monthly living expenses?
- ☐ 5. Juggled credit bills because there wasn't enough money to pay all of them?
- ☐ 6. Refused to answer the phone for fear that it was a creditor?
- ☐ 7. Received late notices on your bills?
- ☐ 8. Used savings to cover regular monthly living expenses?
- ☐ 9. Been billed for late or over-the-limit fees?
- ☐ 10. Been denied credit?

If you checked more than one statement on the list on page 10, consider the following options to get back on track:

- Develop a spending and savings plan (see booklet 2) to get a clear picture of where your money is going.
- Determine ways to increase income or decrease expenses.
- Seek outside help by contacting Consumer Credit Counseling Services (CCCS) or another nonprofit organization in your community, if you're unable to get back to high ground on your own. CCCS has offices throughout the United States and provides financial counseling classes or sessions free or on a sliding fee scale based on your income. They may also be able to help you negotiate lower payments and get your creditors to drop late fees until your financial situation improves. Your success will depend on how willing you are to resolve the problem and your willingness to make some sacrifices.
- Contact creditors. Explain your situation and ask them to help by accepting lower payments for a specified period of time until your situation improves. Contacting creditors early is especially important if you are faced with an emergency and can't pay your mortgage or student loan. Some creditors will allow you to pay only the interest on the account and will add the principal payment to the end of your contract. Remember, you never know until you ask.
- Consolidate debt. A consolidation loan should be used only if the interest rate charged on the loan is lower than the rate on the existing debt payments. This type of loan allows families to pay off several creditors and then make one monthly payment. Be careful, though. Consolidation loans can give a false sense of security as the monthly payments may be small, but spread out over a longer period of time.
- Bankruptcy. A final option to consider when trying to get back on financial track is bankruptcy. This option provides court approval to repay debt over an extended time frame (Chapter 13) or to dismiss debt (Chapter 7) without creditors bringing charges against you. Bankruptcy will remain on your credit report for 10 years and will have an impact on your ability to get credit in the future. If you think bankruptcy is the only option for your family, set up a consultation meeting with a lawyer and learn how bankruptcy will affect your family and your future financial goals.

Luann and her family are portrayed by professional models.

NAME:
LUANN J.

STATS:
33; MARRIED TO PETER; THREE CHILDREN

FAVORITE FOOD:
PASTA

I'D SACRIFICE MY LAST PAYCHECK FOR:
A VACATION.

MY IDEA OF A DREAM VACATION IS:
CRUISING IN THE CARIBBEAN.

PERSONAL MOTTO:
BE PATIENT WITH ME.

We work together. We have a budget. I'm the one who's supposed to stick to the budget and I try to as close as possible. We talk about financial matters often. My husband is more into the stocks and trading and saving, watching the stock market, the Dow, and I really don't find that interesting, but it's a topic of conversation.

I feel I need to try to keep up with what I'm spending a little bit better. The method I use now is that I know the amount for the grocery bill is $400 for the month and then I try to keep a tally so that when I'm going in the stores, I'll know what I can spend and what I can't. I'm getting better at things like that and then trying to save by cutting back on the miscellaneous.

On impulse buying:

My husband doesn't buy on impulse at all. He does no shopping. What gets me is when I have to run into the department store or the grocery store. If we have the kids it's hard to say no to them, so that type of impulse buying—that's what gets us into trouble. And then I think the month before last, we were hit with three birthday parties and that wasn't budgeted. I talked to someone and got an idea how to handle that. Now I go into the clearance section and buy some gifts, for boys and girls. Then I'll already have them for birthday gifts so it won't hit us and throw our budget off.

On her credit history:

Right out of college with credit cards and having to pay off debts and student loans and those types of things ... that was a problem. After deciding to get rid of the credit cards, I had to make calls to the creditors and say I may not be able to pay you for the next two months because I'm trying to pay this one off. A couple of times they said, "Well, why can't you pay us off first?" I'd say, "I'm starting with the small ones and then eventually I can get rid of the big ones."

I had no concept of budgeting and financing when I graduated from college. I never talked to a financial consultant about budgeting or anything like that. I learned because of my husband's budgeting skills and him talking to me, even though I didn't want to hear it. I'd act like I'm not listening, but I'm listening.

I think budgeting and personal finances should be part of a college curriculum, because a lot of students have loans and they have to start paying them back. It really doesn't hit them that six months after you graduate, you have to start paying that stuff back.

On advice to others:

Before I became a stay-at-home mom, I really would say I took money for granted. We both had an income, so going to the movies and out to dinner and doing those things really were not a big issue. Having to cut back and adjusting to the one salary, I feel proud that we were able to adjust to that and stick with it.

Agreeing on financial issues and meeting budgeting goals really can't be done overnight. It takes give and take on both parts just to keep the communication open. I remember the first three months that my husband designed a budget and he was just not realistic with the food. I tried to meet that goal and it became very stressful.

So just keep the lines of communication open.

Credit Can Help or Hurt

It's your choice. How you use credit will have a lot to do with your financial philosophy. Whether you like the feel of cash or crave the convenience of credit, keep in mind these basic advantages and disadvantages of using credit:

Advantages

1. Convenience. Shopping with credit means you don't have to write checks or carry large sums of money.
2. Credit allows you to use and enjoy products while you pay for them. Many families would have to postpone for years the purchase of large-ticket items such as washers and dryers, homes or cars without credit.
3. Credit can buy you or your children an education. Student loans are extended on credit.
4. Credit allows you to purchase items on sale when you don't have cash.
5. Credit allows you to cover financial emergencies and pay later.

Disadvantages

1. Interest charges added to items purchased on credit can make credit purchases very costly.
2. Credit gives a false sense of what you can afford and how much you're spending. It's so easy to use credit that you may forget to consider the real cost of an item.
3. Credit discourages comparative shopping.
4. Credit commits future income to repay accumulated debt. This can slow you down on your way to meeting long-term goals such as buying a house or retiring by a certain age.

Quick tips

Try these tips if you are committed to changing your credit habits. Beware: some involve going very "cold turkey" regarding your credit card use.

1. Set financial goals. Make sure your goal has a specific dollar amount attached. Determine how many paydays it will take to reach your goal. Each payday, set aside some of your income in savings. Use the cash saved to reach your financial goal, which in this case is to get out of credit card debt. While you work to help yourself get out of debt, you can still meet your financial obligations, such as donating to your church. These expenses—saving and your church donation—will be part of your spending and savings plan. (See booklet 2.)
2. Layaway. Ask if the store will allow you to use a layaway plan to make purchases. This method will allow you to make regular payments until the item is paid in full.
3. Shop without credit cards. Leave your credit cards and checkbook at home when you shop. Carry only the amount of cash you wish to spend.
4. Freeze credit cards. Place credit cards in a plastic container (bag or bowl), fill the container with water and freeze them. You'll have to defrost the cards to use them. The defrosting process gives you time to carefully consider the need for the purchase.
5. Go on a credit card strike. Don't use credit for a month. If you don't have the cash, don't buy the item.
6. Try the envelope system. Place money for different purchases in envelopes (food envelope, gas/transportation envelope, entertainment envelope). When the envelope is empty, the spending for that category stops. (See booklet 2 for more details about this system of budgeting.) Be careful when you carry cash. It isn't likely to be returned or replaced if lost or stolen.

How Much Debt Is too Much Debt?

How do you know how much debt to carry? Is 5 percent too little? Is 10 percent too much? You get a little more leeway than that. But remember: No more than 20 percent of your total household net income *after rent or mortgage is deducted* should go to credit.* For instance, look at a household with the following numbers:

Husband's monthly net income	$1,200
Wife's monthly net income	$1,200
Total monthly net income	**$2,400**
Rent or mortgage payment	– $ 500
Remaining household income	**$1,900**

($2,400 minus $500 = $1,900 remaining household income)

Multiply remaining household income by 20% or .20

$1,900 X .20 = $380.00

In this household, no more than $380.00 should go to credit debt each month.

*Source: The Washington Post, January 31, 1999.

Determine your debt rate

To determine what 20 percent is for your family, complete the following exercise. You may want to photocopy this exercise first, or use the copies provided in the back of the book.

A. List your total household monthly net income (include all income sources)..$____________________.

B. List your monthly rent/mortgage payment............................$____________________.

C. Subtract line B from line A and write the total here.............$____________________.

D. Multiply line C by .20 and write the total here.....................$____________________.

Line D is the maximum amount you should have going to credit debt payments monthly.

How are you doing?

Using the chart below, list all of your creditors and the monthly amount you pay them. Include all monthly payments except your rent or mortgage payment. Remember, in addition to any credit cards and student loans you carry, medical, telephone, water, gas and electric service are all extended to you on credit and should be listed here if they are services you use.

Creditors	Monthly credit payment
1. ____________________	$__________
2. ____________________	$__________
3. ____________________	$__________
4. ____________________	$__________
5. ____________________	$__________
6. ____________________	$__________
7. ____________________	$__________
8. ____________________	$__________
9. ____________________	$__________
10. ____________________	$__________

E. Total paid to all creditors (add payment amounts in lines 1-10 above) $ __________

F. Total household net income minus rent/mortgage (from line C) $ __________

G. Divide line E by line F (this is your debt percentage) __________%

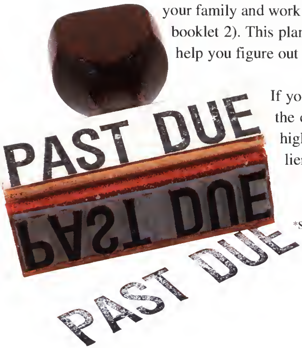
What Does Your Debt Percentage Have to Do With Real Life?

If your credit debt percentage is high, you'll have to cut costs in other areas such as food, transportation, clothing and savings and use that money to pay off your debt. But how do you define high?

Comparisons can sometimes help. If your debt percentage is less than 20 percent,* you are in line with the average American family. This level of debt probably allows you to cover monthly living expenses and save for future financial goals.

Put the freeze on credit

If your debt percentage is 20-25 percent, you are moving toward the credit danger zone. That's when you'd better fill the bowl with water and credit cards, open the freezer and chill. If you fall in this percentage, you may already have trouble meeting your regular monthly expenses. If this sounds like you, you need to discuss your concerns with your family and work with them to develop a spending and savings plan (see booklet 2). This plan will show clearly where all your money is going and help you figure out where you can cut expenses.



If your debt percentage is more than 25 percent, you are in the credit danger zone. To help you get back on financial high ground, review and consider suggestions offered earlier, especially those related to seeking outside help.

*Source: The Washington Post, January 31,1999.

Your Credit Report

Have you ever wondered how creditors seem to know more about you than your own mother does? It's not because they love you more than Mom does. It's because they have access to your credit report, which is kept in a special file at the credit bureau. Your credit report contains personal information including, but not limited to: your address; your Social Security number; present and former employers; a record of how you pay your bills; and a list of all your credit cards and balances, bankruptcies and foreclosures. It will include a record of repayment on your student loan if you have one and, of course, on your mortgage, too.

Can just anybody read your credit report?

No, not just anybody. Individuals and institutions from whom you seek financial resources or services can check your credit file. Some of these include:

- Places in which you are applying for credit (stores, banks, etc.).
- Landlords.
- Insurance companies.
- Employers paying you more than a $20,000 annual salary.

You may not be perfect, but neither is your credit bureau

Credit bureaus report both positive and negative information about you. They also make mistakes. You can guard against this by checking your credit report every two years. You should also check your report before making a big purchase, such as a house or car. Checking before the purchase allows you to correct mistakes and prepare to answer questions about information on the credit report.

How to Get a Good Report

The key to keeping a positive credit report is to buy things you need (a car, electricity, a magazine subscription) and *pay the bill on time*. Credit reports are rated on a scale of 1 to 9. The lower your rating, the more likely you will be viewed as a good credit risk. Credit ratings start with 1, the best rating you can have, and go up one point each time a payment is 30 days late.

Credit rating scale

0 – Account approved, but not used or too new to rate.

1 – "Best Rating." Bill paid on time.

2 – 30 days past due.

3 – 60 days past due.

4 – 90 days past due.

5 – 120 days past due.

7 – Making regular payments under wage earner plan (usually Chapter 13).

8 – Repossession has taken place.

9 – Seriously delinquent account.

You can't return a bad credit report

An *accurate* bad credit report is a final sale. You're stuck with it. It's much easier to steer clear of a bad credit report than to fix one that's broken. To avoid a bad credit report:

- Always pay at least the agreed-upon minimum payment on or before the payment due date. If there is a family financial emergency and you're unable to make agreed-upon payments, contact creditors immediately. Explain your situation and try to work out a revised payment plan. Don't agree to a plan that you know won't work for you and your family.

- Don't apply for a credit card just to get a free gift. Every time a credit application is submitted, your credit file is checked. Too many credit card inquiries and open accounts on your credit report can cause you to be denied credit. It doesn't matter that you don't use the credit cards; creditors see open accounts as potential debt.

Repairing the damage if you do take a bad turn

It's tough to rebuild a negative credit report, but it can be done with time and attention to your finances. All information remains on credit reports for seven years after the last transaction. If bankruptcy has been filed, the information will remain on the credit report for 10 years. True information cannot be removed, even if it is negative. The best way to rebuild a credit report is to pay bills on time and, if possible, pay a little more than the minimum payment. This method allows the bill to be paid in a timely manner.

Order Up

If you've been denied credit within the past 60 days, you can request a free copy of your credit report to review its content. Credit reports can be requested in single copy or, if you are married, as a joint credit report. If you have not been denied credit within the past 60 days, you'll have to pay a small fee, somewhere between $8-$15. You can order a copy of your credit report from one of the three credit reporting agencies listed below. Credit reports from each company will look different and may not contain all of the same information. It's up to you to see what creditors are saying about your financial habits.

Experian (formerly TRW)
P.O. Box 2104
Allen, TX 75013
(800) 682-7654

Equifax
P.O. Box 105873
Atlanta, GA 30348
(800) 685-1111

Trans Union Corporation
P.O. Box 390
Springfield, PA 19064
(800) 888-4213

Once you receive a copy of your credit report, review it for accuracy. The most common mistakes are account information and wrong names. Be sure to check your name if you have a common first and last name. If you find errors, contact the credit reporting agency immediately in writing. Request that the information in your file be verified. Information must be verified and corrected in 30 days.

Additional Resources

Internet addresses

Remember to check information on your credit report at least once every two years. To request a copy of your personal credit report, contact one of the Internet sites below. These site addresses can connect you to credit bureaus providing information on how you use credit:

http://www.transunion.com

http://www.equifax.com

http://www.experian.com

For a study reporting information on mistakes made on consumer credit reports, check: http://www.pirg.org/consumer/credit/mistakes

Check out this site to assist in determining monthly mortgage payments and other installment loans: http://www.lifenet.com/home.html

Publications

Susan Abentrod, *10-Minute Guide to Beating Debt* (Macmillan Spectrum, 1996). Provides lessons on achieving financial security in 10 minutes or less. A must read for credit card users.

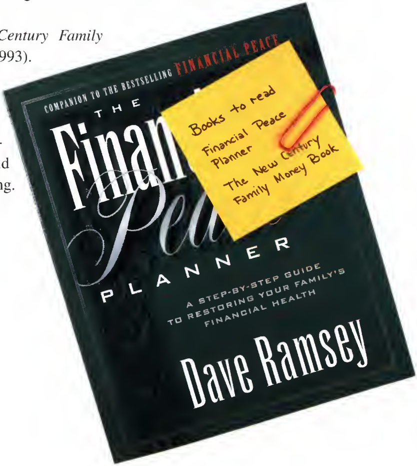
Larry Burkett, *Debt-Free Living: How to Get Out of Debt and Stay Out* (Moody Press, 1997). Designed to help individuals understand the origin of most financial troubles. Provides a means to escape the debt cycle and remain debt-free.

Andrew Feinberg, *Downsize Your Debt* (Penguin Books, 1993). Provides help with managing credit from credit cards to car loans. Also gives ideas on negotiating with creditors and suggestions on reestablishing credit.

Barbara O'Neill, *Saving on a Shoestring* (Dearborn Financial Publishing, 1995). An easy-to-read resource that provides instructions on how to cut expenses, reduce debt and stash cash for the future.

Dave Ramsey, *Financial Peace Planner* (Penguin Books, 1998). Recognizes there are no quick fixes to financial success, but encourages families to take the necessary steps to change their financial lives. Also offers practical suggestions and exercises on how to manage credit and understand your rights when it comes to credit.

Jonathan D. Pond, *The New Century Family Money Book* (Dell Publishing, 1993). A wealth of information to help families experience financial success. Provides tips and step-by-step strategies in every financial area from goal-setting and using credit to saving and investing.



Rate Yourself

This self-test will help you determine how you use credit. Respond to each question by circling the response that best describes how you feel. You may want to photocopy this self-test first. Scoring and explanations are at the end of the test.

Strongly Agree (5) **Agree (4)** **Uncertain (3)** **Disagree (2)** **Strongly Disagree (1)**

1. I use credit to pay for most purchases.	5	4	3	2	1
2. I usually carry an unpaid balance on credit cards.	5	4	3	2	1
3. I have never checked my credit report.	5	4	3	2	1
4. I often use credit cards for cash advances.	5	4	3	2	1
5. I do not know the interest rate I am being charged on my credit cards or loans.	5	4	3	2	1
6. I prefer shopping with credit cards instead of cash because I can pay for my purchase later.	5	4	3	2	1
7. I have more than two credit cards.	5	4	3	2	1
8. You really don't have to do much planning when shopping with credit.	5	4	3	2	1
9. Having a "Gold" credit card is prestigious. Everyone should have one.	5	4	3	2	1
10. It is OK for a person to use several credit cards as long as monthly minimum payments are made on time.	5	4	3	2	1

Rate Yourself summary

To score the activity, total the numbers you circled for each question. (Totals will range from 10-50.) There are no clear right or wrong responses, but some responses indicate more positive credit behavior than others. For instance, a low score (25 or less) indicates that you tend to be a cautious and attentive credit user. A higher score (26 or more) means you may want to look more closely at how you use credit.

The brief comments that follow will help you determine if your responses to the above questions will help you meet your financial goals.

1. Plan your credit use. Don't use credit for items such as food and gas where the payment will outlast the product unless you use the card solely for convenience and pay the balance in full each month. Remember, unless you pay the balance in full each month, you are paying a premium on the items you purchase.

2. Avoid credit interest charges. Pay in full when your statement arrives.

3. Check your credit report every two years to avoid costly mistakes. Information on credit reporting agencies can be found on pages 22 and 23.

4. Using credit cards for cash advances is very costly. A higher interest rate is charged for cash advances.

5. You should pay attention to your credit card's interest rate. High interest rates mean more money will go to the credit lender. Low interest rates mean less money is owed to the lender. Make sure you know what interest rate you are being charged.

6. Credit offers many advantages if used wisely. It means you don't have to write checks or carry large sums of money. It also allows shoppers to purchase items on sale without cash and provides ease in exchanging or returning unwanted or unneeded items. Remember, purchases made on credit, even if bought on sale, may not end up being bargains once interest is added, especially if only minimum payments are made.

7. Having more than two credit cards can be a temptation to overextend yourself. Too many credit cards may prevent approval of major purchases such as a home or automobile because creditors see several credit cards as potential debt.

8. Spontaneity is refreshing but it doesn't make you a wise consumer. When you shop without a plan and feel your credit card gives you complete spending freedom, you could be facing a financial headache later by running up large debts and spending beyond your means.

9. Gold cards usually carry higher annual fees, so they're more costly than regular credit cards.

10. Using several cards and only making the minimum payment can be signs that you have a credit problem or will soon. It's recommended that you use only one or two credit cards. Pay the entire balance monthly or make more than the minimum payment. And, use credit only when necessary.

Determine your debt rate

To determine what 20 percent is for your family, complete the following exercise. You may want to photocopy this exercise first.

A. List your total household monthly net income (include all income sources)..$__________________.

B. List your monthly rent/mortgage payment............................$__________________.

C. Subtract line B from line A and write the total here.............$__________________.

D. Multiply line C by .20 and write the total here.....................$__________________.

Line D is the maximum amount you should have going to credit debt payments monthly.

How are you doing?

Using the chart below, list all of your creditors and the monthly amount you pay them. Include all monthly payments except your rent or mortgage payment. Remember, in addition to any credit cards and student loans you carry, medical, telephone, water, gas and electric service are all extended to you on credit and should be listed here if they are services you use.

Creditors	Monthly credit payment
1. ______________________	$__________
2. ______________________	$__________
3. ______________________	$__________
4. ______________________	$__________
5. ______________________	$__________
6. ______________________	$__________
7. ______________________	$__________
8. ______________________	$__________
9. ______________________	$__________
10. ______________________	$__________

E. Total paid to all creditors (add payment amounts in lines 1-10 above) $ __________

F. Total household net income minus rent/mortgage (from line C) $ __________

G. Divide line E by line F (this is your debt percentage) __________%

Booklet 3 Notes

AAL.
The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

On the financial side

Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

AAL. More than 1.7 million members joined together for financial security and for helping one another. A powerful idea that touches the lives of millions of people each day.

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AAL

AID ASSOCIATION FOR LUTHERANS

THE AFFORDABLE LIFE

YOU REALLY CAN BECOME A MILLIONAIRE

BOOKLET FOUR

Booklet 4

You Really Can Become a Millionaire

Table of Contents

Remember when you were a kid? When the sky was the limit? When you'd daydream about what you'd be when you grew up? It didn't matter if you were on the short and awkward side; in your dream, you dunked over Kareem. It didn't matter that you had pretty serious stage fright. In your dream, you made Steve Martin look shy. But then you grew up and became interested in other things. You studied hard and you found a job that interests and challenges you. You dreamed a lot less about the NBA and "Saturday Night Live" and concentrated on your work. It was a smart move.

But maybe you gave up on other dreams too soon. Maybe you thought some things were unrealistic that are actually within your reach. For instance, you may have dreamed of becoming a millionaire, and, as it turns out, that's one dream nobody has to set aside. Because with hard work, commitment, and a belief and practice in saving and investing, you really can become a millionaire. And the younger you are when you decide to make a million, the younger you'll be when you finally do.

Of course, money is only a means to an end. You're older now, so you know that. Instead of wanting money because it will buy you closets full of toys and candy, your adult eyes see the true value of money. It can give you and your family an education, a home, security, early retirement. It can give you a chance to contribute to your church and favorite charity. And, no doubt about it, it can give you a few grown-up toys, too.

Getting down to business

In this fourth booklet, we'll look at how you can join the ranks of millionaires. Most millionaires weren't born into money. They became wealthy because they worked hard and were committed to reaching a goal. If you dream of millions for yourself and your family, this booklet can help you. Even if becoming a millionaire isn't your primary goal, this booklet shows how anybody can benefit from saving and investing.

As in booklets 1 through 3, you'll find true stories of real people and how they live an affordable life, staying within their means, while stretching to save and invest. They may make more or less money than you do, but they weren't born with silver spoons in their mouths. They're here to tell you that no matter how much money you make now, with a plan and a commitment to saving and investing, you'll be able to have more money later. In addition, this booklet can help you:

- Understand the difference between saving and investing.
- Determine how much risk you can tolerate.
- Recognize when savers should become investors.
- Set saving and investing goals.
- See how money grows.
- Make a plan to start investing.

Saving and Investing Self-Test

This test will check out your saving and investing knowledge before and after you read this booklet. Mark the following questions true or false. For questions marked false, try to provide the correct answer. You'll find the answers near the end of this booklet, but don't look at them after you take the test. Instead, take the test in two rounds, now and then again after you've read this booklet. Don't look at the answers until you've completed Round 2. Then compare your first- and second-round results to see how much you learned. Couples are encouraged to complete the test separately and discuss answers afterwards. You may want to photocopy the self-test first, or use the copies provided in the back of the booklet.

1. For most investment instruments, you'll need at least $100 to get started. **T or F**

   Round #1 answer and comment:________________________________

   Round #2 answer and comment:________________________________

2. You should not invest if you will need to use your money in less than 10 years. **T or F**

   Round #1 answer and comment:________________________________

   Round #2 answer and comment:________________________________

3. Money usually grows at the same rate whether it is saved or invested. **T or F**

   Round #1 answer and comment:________________________________

   Round #2 answer and comment:________________________________

4. The only difference between saving and investing is whether your money is kept in a bank or an investment company. **T or F**

   Round #1 answer and comment:________________________________

   Round #2 answer and comment:________________________________

5. All money saved or invested involves risks. **T or F**

   Round #1 answer and comment:____

   Round #2 answer and comment:____

6. Many millionaires saved and invested money to start their own businesses. **T or F**

   Round #1 answer and comment:____

   Round #2 answer and comment:____

7. If you're older than 35, it's too late to start saving and investing. **T or F**

   Round #1 answer and comment:____

   Round #2 answer and comment:____

Saving? Investing? What's the Big Difference?

Many people use the terms saving and investing interchangeably. They believe they're investing as long as they put money aside for the future. But there's a big difference between the two and a sound financial portfolio contains both savings and investments.

A low-risk, low-return road

Saving is using the safe way to set aside money to reach financial goals. Savers usually receive low rates of interest on money saved, but they have little risk of losing their money. Money saved in low-risk savings products usually doesn't provide the type of return necessary to keep up with inflation. Basic savings products include:

- Checking accounts.
- Passbook savings accounts.
- Certificates of deposit.

A high-risk, high-return route

Investing uses money in the hopes of gaining more money. Investors take on more risk than savers, but the potential for making money is greater. Basic investment products include:

- Annuities.
- Stocks.
- Bonds.
- Mutual funds.

When should savers become investors?

Lots of people aren't comfortable talking about investing. They may think it's like polo or yachting or debutante balls, not exactly something regular folks do. Plenty of yachtsmen and women started out in a dinghy. Investing is a means to help achieve a sound financial future.

The goal of investing is to put money aside and allow it to grow over a long period of time, usually five years or more. If you're not prepared to let your money remain in an investment over time, it may not be enough to help you meet the financial goals you've set for yourself and your family. To increase your net worth, you may need to take some risk and convert from saving to investing.

Preparing for lift-off

That said, it's not something you should jump into until you're prepared. And you're not prepared until you do your homework. You need time to determine how much you can invest and to set the stage for a good investment experience. Investing requires continuous commitment from everybody involved. The following five steps are suggestions for individuals or couples preparing to invest:

1. Prepare a family spending and savings plan to make sure there is enough money to cover current living expenses (rent, mortgage, utilities, insurance, savings, food, etc.).

2. Have an emergency savings fund. These funds should total three to six months of take-home pay. Emergency funds should be easily accessible. Keep two to three months of take-home salary in a savings account at a bank or credit union. Save the balance of your emergency funds in low-risk savings options that provide a higher return, such as money market funds or short-term certificates of deposit (CDs). For some of these options, there are penalties for withdrawing money before it reaches the maturity date. You also may want to consult with your financial institution on other ways to save emergency funds.

3. Check your credit report for mistakes and then make sure they are corrected. See booklet 3, *Credit Can Be Costly*, for information on how to check your credit report. This way, if you are faced with a major expense, your credit report will allow you to qualify for a loan instead of changing your investment schedule. Remember, investing is a long-term proposition.

4. Purchase the best risk-protection plan (insurance) your family can afford. Adequate insurance can help protect you and your family during difficult financial circumstances.

5. Understand the difference between saving and investing. Have specific written goals for each.

How Much Investment Risk Can You Tolerate?

The purpose of determining how much risk you can tolerate before you start an investment program is to assist you in making your best investment decisions for you and your family. You need to consider many factors when you determine your risk level. The most important factors are age, income, assets you own, liabilities you owe, goal deadlines and your investment attitude and education. You may want to photocopy the self-test first, or use copies provided in the back of the booklet.

The following test can help you determine your risk level if you're honest with your responses.

---

1. Your age.

20 to 45 years (three points).

46 to 62 years (two points).

63 years and older (one point).

2. Your total household net income.

$50,000 or more (three points).

$25,000-$49,000 (two points).

$24,000 or less (one point).

3. Total value of what you own.

$50,000 or more (three points).

$25,000-$49,000 (two points).

$24,000 or less (one point).

4. Percentage of monthly take-home pay going to debt after rent or mortgage.

15 percent or less (three points).

16 to 20 percent (two points).

21 percent or more (one point).

5. Do you read financial materials or watch financial programs regularly?

Yes (two points).

No (one point).

6. Do you have three to six months of living expenses saved for an emergency?

Yes (two points).

No (one point).

7. Will you be able to continue your investments for 10 years or more?

Yes (two points).

No (one point).

8. Are you comfortable investing even if you lose some of your money?

Yes (two points).

No (one point).

9. Do you save at least 10 percent of your net income?

Yes (two points).

No (one point).

10. If you had $50,000, would you be more likely to risk it on stocks and bonds than to put it in a bank or credit union savings account?

Yes (two points).

No (one point).

Now, add up your points and write your score in the space provided.____________

Scoring

If your score is 19-24, you can tolerate high-risk investments. If you are without children or dependents and have a stable income and little debt, you are a perfect candidate to seek high-risk investments. This is the best time to invest, even if your total household income isn't as high as you would like it to be. This may be one of the few times in life you have fewer financial responsibilities and don't need to rely on your investments for income. Look at stock options that have a history of good returns. You also should seek growth stock and bond mutual funds.

If you have children and dependents, but are more comfortable assuming high-risk investment options, do so. Only risk a percentage of your money. Risk means taking a chance on whether or not your money will grow. All investments involve some risks and some are riskier than others.

Education can be the key to a good investment experience. Learn to ask questions, read financial magazines and books, and watch TV programs to help you understand how to make your money work harder for you.

If your score is 13-18, you can tolerate moderate investment risks. If you have children, a steady job and low debt levels, you may want to consider a mixture of moderate and high risks. Your family responsibilities will require you to consider several financial goals at one time. Some of these goals may include purchasing a home, starting a college education for your children and starting a retirement fund for yourself.

If you are in your 20s, 30s or 40s, you still have a lot of time to allow investing to help you reach your financial goals, but be careful not to commit too much of your income. If you are over 45, be very careful about too many risky investment opportunities. Balanced stock and bond mutual funds may be your best choice.

Always have emergency funds set aside to allow you to continue investing if you and your family are faced with unforeseen emergencies. Seek educational opportunities that will help you understand how investing will make your money grow. There are many books, magazines and television programs that can help you understand and track your investments.

If your score is 12 or less, your investment risks should be low. If your low score is a result of too much debt or too little income, consider ways to decrease your debt and increase your income. You may consider taking a second job or changing a hobby or skill into a money-making business.

Use the extra money to make additional payments on your outstanding bills. Also, start a bank or credit union savings account. Add to your account each payday, even if it is only a small amount. Continue to save while you learn about ways to invest small amounts.

You may want to purchase savings bonds and concentrate on adding small amounts to a bank or credit union savings for now. If you really are committed to investing, you can purchase bonds at one-half the face value and save them until they mature. Once they mature, their value will double. A $50 savings bond can be purchased for $25. Check with your employer or your local bank.

Read books and magazines and watch television programs that will show you how to develop smart financial skills. When you have saved an adequate amount to start an investment account, do so. Continue your savings plan and watch your investment account grow by adding any extra income or financial gifts.

Key Words

Annuities are contracts sold by an insurance company that guarantee a fixed or variable payment to the annuitant at some time in the future, usually in retirement.

Bonds are money which is loaned to companies, cities, states or to the U.S. government. The money is paid back with interest at a specific time. There are several different types of bonds. Municipal bonds, corporate bonds and savings bonds are the most common.

Compounding interest helps you earn money on reinvested interest as well as on the original amount of money invested.

Dividends are paid to shareholders from profits made by the company or corporation.

Diversification is a strategy that spreads money saved or invested among different saving and investment opportunities to help decrease the amount of risk involved during the saving and investment period.

Dollar-cost averaging is investing a fixed amount of money periodically in the same stock or mutual fund, regardless of the price per share. This process can help reduce your average cost per share because you'll purchase more shares when the price is low and fewer shares when the price is high.

Financial portfolio is a record of all your financial information. It contains information about your checking and savings accounts, individual retirement arrangements, stocks, bonds, mutual funds, real estate and valuables such as art and jewelry.

Interest is money paid to a saver by a financial institution in which one is saving. Interest is paid on your principal. Different institutions will offer different rates, so it pays to shop around.

Inflation is how much the price of an item will rise in the future.

Mutual funds pool the money of many investors to buy stocks and bonds. This allows the investor much greater diversification than if the individual investor attempted to buy the stock or bond on his own.

Risk is the chance one must take on whether the money saved and invested will increase or decrease in value.

Stocks are investments that represent ownership interest in the company or organization issuing them. The person investing in the company becomes a shareholder.

Yield is the total income earned from money you invest or save. Returns will include how much is lost as well as how much is earned. The terms "return" and "yield" are similar but not the same.

Beginning Investor's Financial Pyramid

The financial pyramid below indicates basic saving and investment opportunities for beginning investors. The pyramid also demonstrates how financial risk increases as the potential to make more money increases, and how risk decreases as investors move toward safer saving and investing options.

High-Risk Investment Opportunities

- Undeveloped land—Real estate that has potential, but has not been developed.
- High-yield bonds—Also known as "junk" bonds. A junk bond is simply a corporate bond that offers a higher yield. Junk bonds come from issuers who are less credit-worthy. There is a danger they could not cover the interest payments investors should receive.
- Options—Securities that give you the right to buy or sell specific securities or properties at a specified price within a specified time.
- Oil and gas drilling—This is one example of an opportunity known as a direct participation plan.
- Precious metals—Gold silver, platinum and other such elements. These can fluctuate in price daily.

Moderate-Risk Investment Opportunities

- Blue-chip growth stocks—These are stocks in companies known nationally for the quality and wide acceptance of their products or services. They normally make money and pay regular dividends.
- Investment real estate—This is developed commercial and/or residential property.
- High-quality small company stocks—These are stocks in companies that are relatively new, but have a track record of steady growth and quality.
- Common stock mutual funds—These are mutual funds that have a stated policy of investing all of its assets in common stocks. Mutual funds offer diversity, flexibility, convenience, professional management, liquidity and generally lower prices. These are usually good investments for beginners, but they shouldn't be limited to people just starting out.

Low-Risk Investment Opportunities

- High-quality corporate and municipal bonds or bond mutual funds—These securities provide current income while helping to reduce risk.
- Treasury bills—These are U.S. government debt securities with a maturity date of less than one year.
- Other government bonds—These are bonds issued by states, U.S. or foreign governments.

Very Low-Risk Saving Opportunities

- Certificates of Deposit—For these, the saver agrees to leave an amount of money on deposit for a specified period. The financial institution agrees to pay a certain fixed or variable rate of interest to the saver over the time period.
- Interest-bearing checking accounts—These pay a rate of interest when you maintain a certain balance.
- Savings bonds—These are purchased at half of their face value; a $50 bond can be purchased for $25.
- Savings accounts—These pay a rate of interest on your balance.
- Money Market—Funds placed into this type of account earn interest and may require withdrawals of $500 or more, if you make withdrawals.

The financial pyramid to the left indicates basic saving and investing opportunities for people who are just starting. The pyramid also shows the relationship between risk and the potential for greater rewards. As risk decreases, the potential for lower rewards exists.

Base level

This includes very low-level risks, with guaranteed returns. These sorts of products include Certificates of Deposit, interest-bearing checking accounts, savings accounts, savings bonds and money market accounts.

The disadvantage of these safer investments is that your money doesn't grow as quickly as it may in other products. The value of your money, saved safely but at a low rate, will not give you the power to buy as much in the future because low-risk savings products usually don't provide the type of return necessary to keep up with inflation. By using very low-risk instruments, you are subjecting your money to this risk, which is also known as purchasing power risk.

Second level

This includes lower risks through products such as corporate or municipal bonds, bond mutual funds, Treasury bills or other government bonds. While there is slightly more risk than in the pyramid's lowest level, there is more potential return. Lower-risk investments should be a part of every investment portfolio.

Third level

This level involves moderate risk. Blue-chip stocks, investment real estate, high-quality small company stocks and common stock mutual funds have the potential for greater returns than the two lowest levels, but there is also more risk involved. Investors assume some risk in this level, so there are some ups and downs while the money is invested.

Top level

This is the highest level of risk ... and reward. Because of the speculative nature of these investments, there is a great degree of risk as well as the potential for a greater reward. Undeveloped land, high-yield bonds, options, oil and gas drilling (direct participation programs) and precious metals are some of the opportunities found in this asset class.

Frequent price fluctuations are likely in these investments, as is the potential to lose your initial investment. However, you can make more money in these types of investments than in the other levels.

Asset Allocation

You'll also want to think about how to allocate your assets, especially as they grow. Different financial consultants recommend different mixes of low-, medium- and high-risk investments at different stages of your life.

Conventional wisdom says when you're younger, you may be able to have a larger proportion of savings invested in higher-risk instruments because you have time to recoup an investment as the market goes up and down. You won't need the money for a while, so you can ride out a slump. When you're in your 20s, you might have a portfolio with 75 percent of your investments in higher-risk choices. When you're in your 60s, that amount might be closer to 40 percent.

One way to help you determine how much risk is appropriate is to subtract your age from 100 and use the resulting number as the percentage of your investments that are in the higher-risk category. For example, if you're 35 years old:

100 - 35 years old = 65 percent higher risk

When it comes to the stock market, most everybody knows the old chestnut, "Buy low. Sell high." Like most old chestnuts, it's solid advice. Younger or older, at any point in your investment experience, if the market dips, don't panic and sell (especially if you bought when the market was up).

You'll pay some fees

Whether you purchase individual stocks and bonds or invest in mutual funds, you will pay for the privilege of investing—whether it's a full-service brokerage house, a discount broker, over the Internet or through a registered representative. You should compare fees and services to select the firm that best suits your needs.

To Reach a Goal, Set a Goal

Some of the most common reasons people save and invest are to prepare for retirement, finance a college education, go on a vacation or buy a car or house. No matter what your goal is, the steps to reaching it are the same. Think about the following three questions and then write your answers to them.

1. What are my financial goals?

____

____

2. When will I need the money to reach those goals?

____

____

3. How much can I afford to put aside each month to reach those goals?

____

____

Setting Investment Goals

In the space below, list three things your family wants to save or invest for. Note the cost of the goal. Also, make a note about when you need or want to meet these goals. You may want to photocopy this exercise first, or use the copies provided in the back of the booklet.

Item wanted	$ Goal	Want to have by
Example: Down payment for house	$3,500	5 years
1. ________	________	________
2. ________	________	________
3. ________	________	________

Time Is on Your Side

Time is a very flexible dimension. It can drag, heal or fly. It can make us joyful ("Look at little Suzy already starting to crawl") or make us rueful ("Look at the gray hair I found in my brush this morning"). But when it comes to money, time is not so flexible.

The sooner you start saving and investing, the sooner your money has the potential to grow. Time plays no favorites. You don't need a large sum of money to start saving and investing. Many banks will allow you to open a savings account with as little as five dollars. There are investment opportunities that you can start with as little as $25.

When it comes to making you more money, time works wonders through compound interest. As you may remember from the "Key Words" section, compound interest is when you earn reinvested interest as well as interest on the original amount you invested. The chart below demonstrates how money has the potential to grow with time. Remember, the more often your money is compounded, the faster it will grow, so it's important to know if your financial institution will compound your money annually, quarterly or daily.

$1,000 receiving a 6 percent return.

Years	Interest Compounded		
	Annually	Quarterly	Daily
1	$1,060	$1,061.37	$1,061.83
5	1,338	1,346.85	1,349.83
10	1,791	1,814.02	1,822.03
15	2,397	2,443.22	2,459.43
20	3,207	3,290.66	3,319.80

Small, but steady, can win the race

How much time you have before you'll need your money determines your rate of saving to meet a financial goal. It's an inverse proportion. The more time you have, the less money you need to save each month, as shown here:

Goal: To accumulate $100,000 at age 65. Monthly rate of saving necessary when invested in a financial vehicle with a 12% return:

- If you start saving at age 25, you'll need to save $10.22/month.
- If you start saving at age 35, you'll need to save $32.46/month.
- If you start saving at age 45, you'll need to save $108.71/month.
- If you start saving at age 55, you'll need to save $446.36/month.

Of course, not all investments will pay a 12 percent return. And those that do usually involve a higher degree of risk. But even with a low-risk money market or savings account that offers a 5 percent return, consistent saving, however small the amount, will make your money grow.

Watch weekly savings grow with 5 percent interest.

Weekly Savings	10 Years Later
$ 7	$ 4,720
14	9,440
21	14,160
28	18,880
35	23,600

With time and compound interest, the earlier you start saving, the less you'll have to save to meet a financial goal.

Booklet 4 Sharon's Story | A True Story |

Sharon, an AAL employee, and her family are portrayed by professional models.

NAME:
SHARON D.

STATS: 34;
MARRIED TO MIKE; TWO CHILDREN

FAVORITE FOOD:
Pizza

I'D SACRIFICE MY LAST PAYCHECK FOR:
MORE TIME.

MY IDEA OF A DREAM VACATION IS:
SEVERAL MONTHS IN EUROPE.

PERSONAL MOTTO:
SOMETIMES THE BEST THING TO DO, IN FACT THE ONLY THING TO DO, IS TO JUST SIT DOWN AND LAUGH.

I handle paying the bills and my husband handles balancing the checkbook. Partly because it's much more important for him that it balances. In terms of talking about the budget, clearly any time we have a major purchase we talk about it. And recently with the birth of our baby, we also sat down and talked about insurance and college funding. So we've probably talked more about our budget in the recent past than we would in a typical year.

On saving and investment goals:

What's really important to us is trying to save for the kids' college education and also saving for retirement. It's real important for us to have a balanced approach to investing and to saving. We've got some money in mutual funds and in different types of vehicles. Some large company stock and some small company stock. We have a CD and we have a regular savings account. It's kind of nice to know that we've got a balance.

We get monthly reports from some of our funds and we get quarterly reports from others. We usually use that as an opportunity to talk about it, and say okay, are we saving enough and do we need to make any changes, and that kind of thing.

I'll sit down with *Money* magazine and I'll be bored silly in about three minutes. If either of us finds a good light article about investing, we'll read about it. My husband works in a technology field, so he tends to follow technology stocks a little bit closer. He actually watches some individual stocks and probably watches some of that closer than I do. I would rather have somebody give me advice.

On making a plan to meet goals:

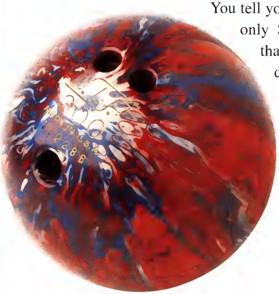
We met with a friend of mine who was starting out as a financial planner. And we went through the whole thing. Reviewed our insurance needs and our long-term goals. At the time, we didn't have kids or a house. Our real goals were to save for a house and to start thinking about retirement. We were probably 25 at the time, only about a year or two out of college and we still had pretty big debts and not a lot of income. The financial planner projected the amount of money we were going to need at age 62, and said it was close to $2 million. I remember just laughing hysterically, thinking, "Yeah, right. I'm going to be a millionaire." Then once we looked at what we already had in terms of our 401(k) programs and pension, we really only needed to save $100 a month to close the gap. And that didn't seem so frightening.

We made arrangements. We looked at different funds, different investment vehicles. We picked a mutual fund and then decided to have the money withdrawn automatically from my paycheck once a month. That way we didn't even miss it. After about a year or so of doing that, we realized how simple it was. If we had the money in the checking account, chances are we were going to spend it. So we started to use automatic payroll deductions as a way to get more serious about saving for a house. We just took it out of the paycheck before we ever saw it. That philosophy has worked really well for us.

On revising the plan:

Within the past couple months we sat down and revisited because we have different insurance needs now. We bought insurance for ourselves and for the kids and started the college fund. It's either drawn out of the checking account automatically or it's taken out of my paycheck. By doing it a month at a time, it doesn't seem like such a large amount of money. You tell yourself, oh, it's only $10 a month, that's not a big deal.

I think it's really important periodically to focus on what it is you want to do long-term, and then figure out what you can do on a regular basis, each day or each month, to take a step toward that. If you focus on that, you don't really need to make huge sacrifices. Instead, it's done in bite-sized pieces.



On buying their house:

About three years out of college, we started to look at houses and we realized we weren't prepared to buy a house because we didn't have enough saved. We had too much debt. That forced us to get serious about some of this stuff, to say, if we're really going to do this, we really need to save differently.

I'm sure there would have been banks that would have lent us the money. I mean, with three percent down you can pretty much buy a house. But I didn't want to be in a situation where all the money we had was going to the mortgage and we couldn't afford to eat. It took maybe two more years of serious saving and questioning some of our expenses and getting rid of our debt until we were able to buy the kind of house that we wanted to buy.

Two years ago we moved to a different home. And, again, we had to make some adjustments. Our mortgage is bigger and our taxes are more. We shopped for the kind of lending situation that would work best for us and, through the credit union, I have the mortgage payments taken out of my check. So I don't actually get much of

a check. I joke that one of these days, instead of a paycheck, I'll get a slip that says I owe money. But I find it less anxiety-provoking than to have to sit down every month and write out a big mortgage check.

On their insurance needs:

A couple of years ago my husband's brother-in-law died unexpectedly. He was in his mid-30s. And he didn't have much insurance. I saw my sister-in-law coping with the loss and everything. But then to have a lot of financial stuff on top of it. I was really just struck by just how huge that was to try to struggle through.

Before that, we just had insurance through work. It was okay, but it wasn't a lot of insurance or probably enough insurance. And so I feel really proud of the fact that now we've taken the time and really talked about what our goals are and what we need in case either one of us dies, the child care costs and the college costs and the mortgage. We've taken a lot of steps toward getting the amount of coverage that we need. Now I feel really comfortable that if something should happen to either one of us, our kids will still be able to do what we want them to in terms of getting an education and being well-cared for.

Rule of 72

Wouldn't it be convenient if there was a quick, simple way to figure out how much time it will take to accumulate a certain amount of money?

It's called the Rule of 72 and here's how it works: If you have a lump sum of money, you can determine how long it will take the money to double in value. You'll just need to know one of the two following things:

- The rate of return you'll receive on the money.
- The number of years until you'll need the money.

If you know the number of years until you'll need the money, divide that number into 72. Your answer will tell you the interest rate you must receive for your money to double during that time. For example, if you know you need the money in 10 years to pay for your daughter's college education, just do the math to find out the interest rate you'll need to receive:

72 ÷ 10 years = 7.2 percent (rate of interest needed)

Conversely, if you know the interest rate you'll receive on your money, divide that number into 72. Your answer will tell you how many years it will take to double your money at that rate.

72 ÷ 7.2 (interest rate) = 10 years for money to double

Try it out

1. You recently received an inheritance of $10,000. You'd like it to double in six years, so you'll have a minimum down payment of $20,000 on your dream home. What rate of interest must you receive to reach your goal?

   a. 10 percent.

   b. 12 percent.

   c. 6 percent.

2. You have an investment opportunity in which you'll receive an 11 percent rate of return. Approximately how many years will it take to double your money?

   a. 4.5 years

   b. 6.5 years

   c. 8 years

Answers: 1. (b) 72 ÷ 6 (years) = 12% 2. (b) 72 ÷ 11 (interest rate) = approximately 6.5 years

You've Got the Will, You Can Find a Way

Investing involves more risk than saving, but to accumulate real wealth, or even to meet familiar goals such as owning a home, sending your kids to college, or retiring while you're still young enough to enjoy it, you have to make the leap from saving to investing.

Maybe for you, the spirit is willing, but the pocket is empty. If you wonder how you'll ever be able to save enough money to begin investing, even modestly, the following suggestions may help.

- Saving to invest. Build saving directly into your budget. Use a payroll deduction plan if it's available where you work. First, save to establish an emergency fund. Continue to save until you have accumulated enough money to start your investment program.
- Save windfalls. Windfalls are unexpected money you receive. Windfalls may be gifts, employment bonuses, overtime pay or income tax returns. When you gather a windfall, invest the money or add it to your savings until it is adequate to start an investment program.
- Continue installment payments. Once an installment account is paid off, perhaps a credit card debt, a car loan or a student loan, continue to make the same payment to your saving-to-invest program.
- Save loose change. Start a family campaign to save change. It's estimated that loose change can add up to as much as $600 in one year.
- Change snack habits. Instead of lunch out five days a week at $5 daily ($100 monthly), how about lunch out three days a week at $5 daily ($60 monthly)? That's $40 a month that you can save to invest.
- Save at least half of your salary increases. You lived on your salary before you got a raise, so you should be able to save at least part of it. If you do it right away, especially if you have automatic payroll deduction, you'll be less likely to miss it.

Booklet 4 Paul's Story | A True Story |

Paul, an AAL employee, is portrayed by a professional model.

NAME:
PAUL W.

STATS:
32; MARRIED TO JULIE; NO CHILDREN

FAVORITE FOOD:
RIBS FROM TWIN ANCHORS RESTAURANT IN CHICAGO

I'D SACRIFICE MY LAST PAYCHECK FOR:
AN OPPORTUNITY TO OWN MY OWN BUSINESS.

MY IDEA OF DREAM VACATION IS:
THREE MONTHS IN EUROPE.

I think it'd be safe to say that my wife and I are slow movers versus fast movers. We make sure all the "i's" are dotted and the "t's" are crossed before we make any type of financial move. I'd say we're financially pretty strong for a couple of reasons. One, both of our backgrounds are in finance, so that's been very helpful. But the main reason is we both, right off the bat, right out of school, started maximizing our 401(k) contributions. So that's really given us a good, steady start.

On other investments:

In addition to that, we make outside investments. In my case, when I contribute the maximum to my 401(k), by mid-year I'm capped, I can no longer contribute. So we had to come up with outside portfolios, which we use to invest in growth stocks and things like that. I also think one of our advantages has been really staying out of the credit card game. When we do use credit cards, it's usually a situation where it can be paid off within two months. That's as far as I'll go.

We really take a lot of time discussing things. And it's been good because there have been cases where maybe I would have gone one way and then after hearing out my wife, I changed my mind, or vice versa. She might have been wanting to do something, and then I discussed all the pros and cons with her, and we decided not to make that decision.

On keeping track:

We focus on our investments on a quarterly basis when our statements are coming from our mutual funds and our other investments. We kid around, and we call it a "state of the union," where my wife tells us where we are. I constantly have a pulse on that because the industry I'm in is concerned with investing. But it's kind of nice to have somebody to pull that all together. She laughs at me because I can give her a ballpark figure within dollars of where we are. But it's still nice to have that all collected in one spot.

On long-term goals:

Ideally, there are a couple of long-term goals. Down the road, I would ultimately like to own my own business. So we've put away an investment that's primarily concerned with growth because that's more or less a 10- to 15-year dream. But we're plugging money away. And then if we don't use it, or if that never comes to fruition, fine.

Other than that, we both would like to retire by age 60, which isn't real early, but not many people in this day and age do that. We've already purchased a property for our retirement home. There's a small cottage on it now. It's nothing fancy. But everything that we do spend major money on, with the exception of automobiles, is primarily appreciating, investment-type things.

On making mistakes:

In college, I was very irresponsible. I'd make phone calls home probably on a biweekly basis telling my mom that I needed money put in my checking account because I'd be overdrawn. After that, probably the first year out of school, I was making a little money and I was very careless.

I started to notice the goals of people that I worked with. I worked in the financial industry. And I started understanding investing concepts. I'll tell you, two years after that first year of kind of having fun right out of school and just spending everything, I started to get a nest egg together. I never felt better, because I didn't have to worry anymore if I was going to be able to pay the rent. When I got that security, I felt better. The next payday would come, and it was a relief to put some of it away.

On working with a financial advisor:

If you're in the industry, I think you've really got to believe in some of those fundamentals to be any good. I could go to a broker or someone like that, and if his personal finances are shaky, the way he works with me is going to be very different from somebody who is following his own advice. The guy with the shaky finances will be pushier and will use more high-pressure sales techniques. The guy who's financially secure will be able to look you straight in the eye.

On advice to others:

A lot of people approach their finances by staying away from them or just ignoring them and the problem festers. If you can focus on them, you'll find you'll be in much better shape. Even when you sit down and you find you're a little short here, a little short there, you'll just feel better because you'll know where you are. I think at all times try to keep a pulse on where you are.

The main advice I would give anybody is, get a snapshot, sit down and take a look at where you truly are. When you're making decisions or anything of that sort, put things in categories of this is what we

need, this would be nice, and this would be a goal or a dream. When you categorize everything like that, it'll give you a map of what kind of decisions you need to make.

When you hear about budgeting, I think everybody thinks sacrifice. I don't think you should, if you can afford not to, make your budget one in which you live nickel-and-diming yourself, and listening to everybody say, gee, are they cheap. Enjoy a little of it as you're going for these goals. The key is you've got to know where you are and try to identify where it is that you really want to go and make your decisions around that.

Most people spent more time planning their last vacation than they do figuring out where they are financially.

Which Way to Wall Street?

Stocks, bonds, mutual funds or annuities are the most common places to start investing. Where you invest will depend on your investment goals and when you'll need the money. Mutual funds or annuities are often considered the best starting place for new investors because they offer great opportunities and the funds are managed by professionals who research the stocks, bonds and other securities that are part of that fund's portfolio. Though the investor still needs to pay attention and know the philosophy, goals and performance record of the fund (is it considered a low-, medium-, or higher-risk fund, for instance), mutual funds and annuities relieve new investors of the responsibility of choosing individual stocks.

Shop carefully

You need to shop carefully for an investment vehicle that suits you. Perhaps you'll decide to invest in blue-chip stocks, which have a historical record of good earnings, come from stable companies that lead their industry and have good earning potential, too. Or you may decide that a higher-risk mutual fund with good growth potential is better for you. To get started, read newspaper articles, books and financial magazines (see Resource section at the end of this booklet) to get an idea of the different stocks, bonds and mutual funds that are available.

If you decide to invest in a mutual fund, study the fund's philosophy and track record. Look into the fund manager's track record and history with the fund. Perhaps the fund has done well for five years, but the fund manager just left. You may still decide to invest in the fund, but this information can help you make informed investment choices.

Your saving and investment decisions should be based on a number of factors including your financial philosophy, your net worth, your debt burden, your goals, your dreams and your comfort level with risk.

Saving and Investing Self-Test Answers

Before you review the answers below, go back to the test in the beginning of the booklet and answer the questions again. This gives you a chance to correct your Round 1 answers or add to them now that you've learned a little more about investing.

1. **False.** Many investments require as little as $25 to get started.

2. **False.** Your financial goals will determine the term of the investment. Although investments should be made with long-term goals in mind, it's OK to invest for less than 10 years. A financial professional can assist you in making suitable choices.

3. **False.** Money invested is at more risk than money saved, but it has the potential to earn higher rates of return and has the potential to grow faster.

4. **False.** Saving is low risk and investing is higher risk. Savings are usually put aside to cover short-term expenses (car insurance, annual family vacation, home repairs, etc.) Investments are usually started to cover long-term financial goals (dream home, a more extravagant vacation than usual, retirement and college education for children).

5. **True.** All money saved and invested will involve risks. But many saving vehicles are extremely stable. Always keep your saving and investment goals in mind. Don't risk more than you can afford. If you constantly worry about an investment, then you're risking too much.

6. **True**. Many millionaires weren't born that way. They saved and invested money to start their own businesses. If owning your own business is one of your dreams, consistent saving and investing can help make the dream come true. Starting a business can be a costly venture, so establishing a plan with clearly-defined goals and a timeline is essential. It will enable you to meet ongoing family financial needs and pursue your dream.

7. **False.** It is never too late to start saving and investing. The most important thing is to get started. Start now and do it every pay period.

Additional Resources

Internet addresses

The following addresses can assist you in determining how much you'll need to save or invest to meet a financial goal. They'll show you monthly payments or total costs, based on interest rates and inflation cost. Use the worksheet provided on the site to experiment with different dollar amounts.

http://www.familymoney.com

http://www.kiplinger.com

http://www.lifenet.com/home.html

Publications

Richard Carlson, *Don't Worry, Make Money* (Hyperion, 1997). Tips, strategies and stories to encourage, motivate and assist in financial security and success.

Frances Leonard, *Time is Money* (Addison-Wesley Publishing Co., 1996). Designed specifically to help individuals and couples in their 20s and 30s achieve financial success.

Thomas J. Stanley and William D. Danko, *The Millionaire Next Door* (Longstreet Press, Inc., 1996). Answers the question many working individuals and families ask themselves: "I work so hard … how come I'm not rich?" This book may change your perspective on wealthy individuals and families.

James Steamer, *Wealth on Minimal Wage* (Berkley Books, 1998). Reinforces the fact that small salaries don't have to prevent financial success. Written by a couple in their late 30s who have achieved financial success with annual income of less than $20,000.

Eric Tyson, *Personal Finance for Dummies* (IDG Books, 1997). Easy-to-use, step-by-step book designed to help individuals and families have a successful experience as they strive to better manage their money.

Jane Bryant Quinn, *Making the Most of Your Money* (Berrybrook Publishing, Inc. 1997). Provides a wealth of new and practical ideas on ways to better manage money and reach financial goals. Can address any financial situation families may face. Highly recommended for the family library.

Saving and Investing Self-Test

This test will check out your saving and investing knowledge before and after you read this booklet. Mark the following questions true or false. For questions marked false, try to provide the correct answer. You'll find the answers on page 29 in this booklet, but don't look at them after you take the test. Instead, take the test in two rounds, now and then again after you've read this booklet. Don't look at the answers until you've completed Round 2. Then compare your first- and second-round results to see how much you learned. Couples are encouraged to complete the test separately and discuss answers afterwards. You may want to photocopy the self-test first.

1. For most investment instruments, you'll need at least $100 to get started. **T or F**

   Round #1 answer and comment:____________________________________

   Round #2 answer and comment:____________________________________

2. You should not invest if you will need to use your money in less than 10 years. **T or F**

   Round #1 answer and comment:____________________________________

   Round #2 answer and comment:____________________________________

3. Money usually grows at the same rate whether it is saved or invested. **T or F**

   Round #1 answer and comment:____________________________________

   Round #2 answer and comment:____________________________________

4. The only difference between saving and investing is whether your money is kept in a bank or an investment company. **T or F**

   Round #1 answer and comment:____________________________________

   Round #2 answer and comment:____________________________________

5. All money saved or invested involves risks. **T or F**

Round #1 answer and comment:______________________________

Round #2 answer and comment:______________________________

6. Many millionaires saved and invested money to start their own businesses. **T or F**

Round #1 answer and comment:______________________________

Round #2 answer and comment:______________________________

7. If you're older than 35, it's too late to start saving and investing. **T or F**

Round #1 answer and comment:______________________________

Round #2 answer and comment:______________________________

How Much Investment Risk Can You Tolerate?

The purpose of determining how much risk you can tolerate before you start an investment program is to assist you in making your best investment decisions for you and your family. You need to consider many factors when you determine your risk level. The most important factors are age, income, assets you own, liabilities you owe, goal deadlines and your investment attitude and education. You may want to photocopy this exercise first.

The following test can help you determine your risk level if you're honest with your responses.

1. **Your age.**
   20 to 45 years (three points).
   46 to 62 years (two points).
   63 years and older (one point).

2. **Your total household net income.**
   $50,000 or more (three points).
   $25,000-$49,000 (two points).
   $24,000 or less (one point).

3. **Total value of what you own.**
   $50,000 or more (three points).
   $25,000-$49,000 (two points).
   $24,000 or less (one point).

4. **Percentage of monthly take-home pay going to debt after rent or mortgage.**
   15 percent or less (three points).
   16 to 20 percent (two points).
   21 percent or more (one point).

5. **Do you read financial materials or watch financial programs regularly?**
   Yes (two points).
   No (one point).

6. Do you have three to six months of living expenses saved for an emergency?

Yes (two points).

No (one point).

7. Will you be able to continue your investments for 10 years or more?

Yes (two points).

No (one point).

8. Are you comfortable investing even if you lose some of your money?

Yes (two points).

No (one point).

9. Do you save at least 10 percent of your net income?

Yes (two points).

No (one point).

10. If you had $50,000, would you be more likely to risk it on stocks and bonds than to put it in a bank or credit union savings account?

Yes (two points).

No (one point).

Now, add up your points and write your score in the space provided.____________

Read what your score says about your risk tolerance on pages 9 and 10.

Setting investment goals

In the space below, list three things your family wants to save or invest for. Note the cost of the goal. Also, make a note about when you need or want to meet these goals. You may want to photocopy this exercise first.

Item wanted	$ Goal	Want to have by
Example: Down payment for house	$3,500	5 years
1. ______________________	__________	__________
2. ______________________	__________	__________
3. ______________________	__________	__________

Booklet 4 Notes

AAL.
The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

On the financial side

Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

AAL. More than 1.7 million members joined together for financial security and for helping one another. A powerful idea that touches the lives of millions of people each day.

AID ASSOCIATION FOR LUTHERANS

4321 N. Ballard Road, Appleton, WI 54919-0001
www.aal.org • e-mail: aalmail@aal.org • (800) 225-5225

Insurance and retirement products offered, where available, by Aid Association for Lutherans, Appleton, WI 54919-0001. Securities offered through AAL Capital Management Corporation, 222 W. College Ave., Appleton, WI 54919-0007, a wholly owned subsidiary of AAL. Credit union services offered by AAL Member Credit Union, Appleton, WI 54919-0010, an affiliate of AAL. Trust services offered through AAL Trust Company, FSB, 125 N. Superior St., Appleton, WI 54919-0004, a wholly owned subsidiary of AAL.

[1]Where available.
[2]Underwritten by National General Insurance Companies.

14530D 5-99

AID ASSOCIATION FOR LUTHERANS

THE AFFORDABLE LIFE

THE ABCs OF FINANCIAL SUCCESS

BOOKLET FIVE

Booklet 5

What Does Money Mean to You?

Table of Contents

Stick with us while we look at three seemingly unrelated ideas:

1. Do you remember the last time you packed for a trip? The way you put a few last-minute things in your bag? Important things you almost forgot like a favorite sweater, a travel alarm, your toothbrush, a paperback for the road or for the airplane?

2. Leftovers. Sometimes they're exactly what you crave. Anybody who has ever eaten a slice of cold pizza for breakfast knows the feeling.

3. "Oh, and one more thing..." How many times a week do you say something like that at work to your colleagues? At home to your spouse as he's heading out the door to pick up a gallon of milk? To your friend on the phone when you're sharing stories of your week and making plans for Saturday night?

Last-minute items. Leftovers. One more thing. That's what this booklet is all about.

Just because they come in grab-bag form, don't think for a second that the topics in this booklet are unimportant. (Toothbrush, cold pizza—need we say more?) You'll find a full slate of key concepts related to personal finances and money management. Some of these have been discussed in booklets 1 through 4 and others are new, but all of them are things to be familiar with if you want to achieve financial success. You'll find more true stories, too. The people telling them touch on subjects that run the gamut from insurance concerns to setting priorities to the risks and rewards of buying real estate. As always, they share information about the affordable life they live, and, as you read their stories, you'll pick up tips to help you live *your* affordable life.

Easy as ABC

The material in this booklet is arranged in logical ABC order. As you read the definitions of terms and ideas, try to make notes on practices you currently use, and identify at least three new practices that will help you turn your financial dreams into goals, and your goals into reality.

Accounts

To achieve financial success, you should consider three types of accounts: checking, savings and investment.

Checking account

A well-maintained checking account can serve as a reminder of how you spend your money. It provides a clear record of how much you spend on food, clothing, entertainment, transportation, child care and other expense categories. Your checking account register is the best place to get information to start developing a family spending plan or budget.

Savings account

A savings account provides a safe and secure place to save money to meet short-term financial obligations. It is also a great place to accumulate money to start a long-term investment program. If you don't have a savings account, you are missing an opportunity for a financially secure future. It is recommended that you save three to six months of take-home pay in an emergency savings account. These funds will assist you during financial emergencies such as unemployment, illness or a costly home or automobile repair.

Investment account

An investment account can help you build wealth to reach future financial goals. Most people invest to finance a college education, to purchase a home or car, or to finance their retirement. You don't have to be rich to invest, but you probably won't get rich unless you do. Minimum beginning investment amounts vary, but many require as little as $25 to get started.

Make notes here:

List accounts that you'll try to open within the next six to 12 months to assist you with your financial goals.

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Balance

Knowing your ongoing balances in your checking, savings, and investment accounts will help you stay on financial track and prevent embarrassing situations such as bouncing a check or having a purchase or credit application denied. For some of your accounts, such as an IRA mutual fund, a monthly or quarterly tracking of the balance is probably enough. With others, for instance a checking account that you use frequently, it's easier (and important) to keep an accurate tally on a daily or weekly basis.

Contributions

Contributions are financial donations or gifts made to churches or charitable organizations such as the March of Dimes, American Cancer Society, or Easter Seals. The contributions we refer to here are not to be confused with an employee contribution you might make to your 401(k) plan at work. It is estimated that seven out of 10 families make such charitable contributions each year. Some financial contributions are tax-deductible. Contributions may be given weekly, as you would give a church offering, or they may be given to organizations annually. If you are committed to making contributions, they need to be part of your spending plan. Planning contributions will ensure money is available when needed.

Debt

Debt is what you owe others. Too much debt can prevent you from getting the things you and your family need and want. Too much debt will affect your ability to purchase a home or a car, or to get a job. A safe debt level is no more than 20 percent* of take-home pay—after rent or mortgage—going toward repaying credit debt, which can include credit card balances, student loan payments and utility bills. If more than 20 percent of household income after mortgage or rent payment is being used for debt payments, you are heading for danger. If you haven't already determined your credit debt level on page 18 in booklet 3, *Credit Can Be Costly*, complete the following exercise.

Example		Your debt level	
Monthly income	$1500	A. Total household monthly net income	$ ________
Minus rent/mortgage	$ 600	B. Monthly rent/mortgage	$ ________
Balance	**$ 900**	C. Subtract line B from line A	$ ________
$900 x .20 =	$ 180	D. Multiply line C by 0.20	$ ________
20% of balance =	$ 180	Line D is the maximum you should have going to credit debt payments monthly.	
(No more than $180 should go toward repaying debt.)			

Monthly credit payments

$________	$________
$________	$________
$________	$________
$________	$________

E. Total paid to all creditors (add payment amounts above)	$________
F. Total household monthly net income minus rent/mortgage (from line C)	$________
G. Divide line E by line F (this is your debt percentage)	________%

If more than 20 percent of your net income after rent or mortgage is going toward credit debt, see booklet 3 for ideas on how to get back on financial track.

*Source: The Washington Post, January 31,1999.

Electronic funds transfer (EFT)

As a society, we're moving away from using cash. EFT is one reason. This technology allows consumers to transfer money electronically directly from one account to another. Technology has changed the way we bank, shop and pay bills. Our paychecks are automatically deposited. We pay our bills and even shop from home with our computers. It's estimated that in the next few years our government will go out of the check-writing business. Families or individuals receiving monthly government checks (Social Security, railroad retirement, etc.) will have to have an account at a financial institution that will allow direct deposits. EFT requires a commitment to good financial recordkeeping, but it can be a good way to save and invest automatically. If you have difficulty balancing your checking account or tracking your spending, you must develop skills in these areas to achieve financial success in the future.

How do you do that? The same way you develop cooking or dancing or tennis skills: you practice. The more time and attention you give your financial accounts, the better you'll become at keeping your financial house in order.

Fringe benefits (employee benefits)

Fringe, or employee, benefits are the special perks or incentives you receive above regular income for being part of a company or organization. Medical coverage, dental plans, eye-care plans, 401(k) matching plans and stock options are a few of the benefits some organizations offer. These benefits can offer big financial savings to families. Make sure you are aware of the fringe benefits your employer provides. If you don't understand all the benefits you have, schedule an appointment with the appropriate person at your company who can tell you about them.

Make notes here:

What fringe benefits does your employer provide? How do you apply for these benefits? Whom would you contact for more information? Are you taking full advantage of benefits such as your 401(k)?

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Goal setting

Goal setting is the most important step to accomplishing anything. Goals serve as a road map to help make dreams become realities. The first step in setting goals is to dream. Don't be afraid to dream big. But remember, most dreams don't come true overnight. Make your dreams visual by writing them down. Determine which dreams you want to accomplish first, then develop a plan of action for each. Your plan of action provides clear steps on what you need to do to reach your goals.

High interest

High interest helps your money grow. Shop and compare rates when looking for a financial institution. Select one that is convenient and meets your needs, but make sure it will provide you with competitive interest rates. High rates mean you will receive more money for saving money. The higher the interest you receive, the faster your money grows.

Interest Rates Make a Difference
$500 invested annually

Interest (compounded annually)	Years			
	5	10	15	20
5%	$2,762.50	$6,289.00	$10,789.00	$16,532.50
8%	$2,933.50	$7,243.50	$13,576.00	$22,881.00
10%	$3,052.50	$7,968.50	$15,886.00	$28,637.50

Insurance

Insurance protects you and your family against financial losses due to accidents, loss of property, loss of income, illnesses and death. There are many types of insurance coverage. The most common types are car insurance, homeowner's or renter's insurance, health insurance, disability income insurance and life insurance. The coverage you select for your family will depend on your needs and the value of your property. Your family insurance needs will change from time to time. If you are unsure of your family's coverage, schedule a meeting with your AAL representative and request an insurance analysis update.

Joint accounts

Joint accounts allow access by more than one person. Usually, both parties are equally responsible for the account. If one person fails to make account payments, merchants will seek payment from the second person. Liability for joint accounts does not usually end with a divorce. Joint accounts must be paid off, closed, and a new application completed before a joint account can legally become a sole ownership account.

Cathy, an AAL employee, and her husband are portrayed by professional models.

NAME:
CATHY S.

STATS:
28; MARRIED TO ROSS; NO CHILDREN

FAVORITE FOOD:
FRENCH FRIES

I'D SACRIFICE MY LAST PAYCHECK FOR:
MY HUSBAND AND MY ANIMALS.

MY IDEA OF A DREAM VACATION IS:
EUROPE

PERSONAL MOTTO:
EVERYTHING HAPPENS FOR A REASON.

I primarily handle the money. It works out well. Ross ran into a little trouble in that area (when he was younger), and I am a very organized, precise person. When we got married, I took over the bills. Once you're married, both your names go on the credit report. So I took over bill-paying and he didn't have any problem with that.

We don't have a formal budget. I know what the bills will be and how much we make, so there's not a formalized budget. It's in my head. I would certainly notice variances.

On what's worked for them:

We just built a house last year, a large purchase. We did do a budget on paper. We talked about how much we needed to make, and we did that on a monthly basis and we planned it over the years because some things only come due twice a year, like car insurance. Life insurance is an annual thing, and we calculated the monthly costs for it and then we determined the new taxes. We called the jurisdiction where we were going to move to see how much the taxes would be and then we determined if what was left was OK. If there was no money left, we wouldn't have anything for savings. We didn't want that to happen.

On setting priorities:

We have a list of wants. Our cutoff is around $100. If it's over that amount, we put it on a list. We recently went through the list—we do it every couple of months or so—and prioritized it. In fact, we each took the list and arranged it according to our priorities. The numbers were not the same. I said we have to get this in sync. We both agreed on the top three priorities and then agreed to the order. There were probably 15 things on the list. Now we know when we've got some extra money, that's where we're going to spend it. There are no arguments, because we have the list. Once in a while my husband is more impulsive than I am and he wants to buy this or that. I tell him it's not at the top of the list. Smaller things, like groceries, that's a necessity so we just spend the money.

On what she's most proud of:

The two of us could probably retire at 55. That will change if we have children, but as it sits now, we could easily retire at 55 without having to rely on Social Security. Insurance is a big part, too. If one of us were to pass away, we wouldn't leave the other destitute. That was a real switch for me because when I was single, I didn't have very much life insurance. All I had

was what I had as an employee because nobody would have suffered had my income been lost. Now that I'm married, it's a different world. I want to be able to pay off the house, and if I die, I don't want to leave my husband with that problem.

On advice to others:

I've always been responsible. Ross wasn't when he was younger. He bought a car that he couldn't afford and he had bill collectors calling him nearly every day because he was behind on credit cards and things. He ended up getting three jobs because he thought it was getting out of hand. He started to pay off the creditors and then he got himself back into shape. He learned from that experience. His sister is seven years younger and is heading down that track. He is helping her by telling her, "I've been through that, don't do that." He really learned his lesson.

Keogh

A Keogh tax plan allows business owners to set aside money each year for retirement and defer taxes until the money is withdrawn. If you have a small business, a Keogh plan may be appropriate for you. Many retirement plan options are available today, including the Keogh, SEP and SIMPLE IRA.

Low interest

When borrowing money, seek the lowest interest possible. The lower the interest rate, the less you'll pay for the privilege of using a financial institution's money. Check the interest rate on your credit cards. If you're paying interest of more than 15 to 18 percent, your payments are always made on time, and you're not over your credit limit, request a lower interest rate from your credit card company. If you're denied, find a company that charges a lower rate and allows you to transfer your balance. Before changing companies, make sure the rate you're getting is a fixed rate and not an introductory rate that will change a few months after you change credit card companies. Low interest means more money in your pocket.

Minimum payment

The minimum payment is the least amount a company will allow you to pay monthly on a credit account. Accounts in which only a minimum payment is made will take longer to pay off and will increase the original cost of the item purchased. Increasing minimum payments will decrease the length of time needed to pay off the debt and will decrease the amount of interest you pay, as shown in the example below.

ZYX credit card balance $500; interest rate 18%

Monthly minimum payment	Total interest paid	Months to pay off
$25.00	$98.91	24
$40.00	$57.86	14

Net worth

Net worth is a person's value when all his or her liabilities (what is owed) are subtracted from assets (what is owned). To determine your net worth, add all debts, then add all assets. Subtract what you owe from what you own. If your debts are more than your assets, you have a negative net worth. If your assets are more than your debts, you have a positive net worth. To find out more about improving your net worth, see booklet 2.

Overdraft protection

Overdraft protection is a special service offered by banks and credit unions. It prevents your checks from bouncing when you don't have enough money in your account. Although this service saves the embarrassment of bouncing a check, it can be costly. Financial institutions usually charge as much as 18 to 20 percent annual interest for overdraft protection. Overdraft protection can also become a problem if you rely on the service instead of learning to manage money properly.

Payroll deduction

Payroll deduction is a convenient, reliable way to have money put into special accounts each payday and it is an excellent way to start a savings or investment program. Many employers offer payroll deduction. If you're interested in having money automatically deducted from your paycheck and placed in a special savings or investment account, contact the human resources or payroll department where you work to get started.

Qualified retirement plans

A qualified retirement plan is established by an employer who wants to provide retirement benefits for its employees. If the plan meets certain legal requirements, the business establishing the plan and the employees who benefit from it are entitled to special tax consideration. Common qualified retirement plans are profit-sharing plans, 401(k) plans, and money purchase pension plans.

Risk

Risk is the chance you take on whether the money you save and invest will grow or decrease in value. All investments carry risk. There are low, medium and high risks. The lower the risk, the lower the growth, but the safer the investment. The higher the risk, the greater the potential to earn or lose money. The key to making risk work for you is never to risk more than you're comfortable with. If you can't sleep at night because you're worried about your investments, your investments involve higher risk than your risk comfort level.

Nick and his family are portrayed by professional models.

NAME:
NICK A.

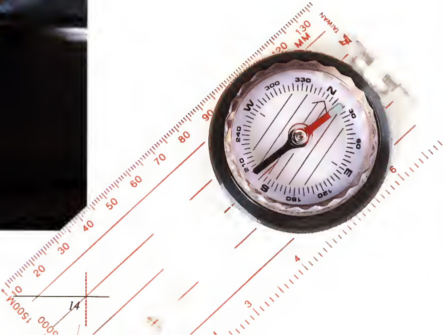
STATS:
39; MARRIED TO DEBBIE; THREE CHILDREN

FAVORITE FOOD:
PASTA

I'D SACRIFICE MY LAST PAYCHECK FOR:
MY FAMILY.

MY IDEA OF A DREAM VACATION IS:
CAMPING WITH MY FAMILY.

PERSONAL MOTTO:
IT'S SOMETHING I WROTE ORIGINALLY AS A FAMILY MISSION STATEMENT. "IT'S NICK AND DEBBIE'S FAMILY MISSION TO PROVIDE A LOVING ENVIRONMENT THAT WILL ALLOW US TO GROW INDIVIDUALLY AND TOGETHER, TO RAISE RESPONSIBLE, SELF-DISCIPLINED CHILDREN WHO ARE ABLE TO MAKE WELL-INFORMED CHOICES IN LIFE."



After getting out of college, Debbie and I were both fortunate enough to have a little money left over. And after we got married, we bought a duplex and lived in half of it. We bought it with a 5 percent down payment, the minimum you could get. That was in 1983 when interest rates were astronomical, 16 percent, but we were committed. We bought a nice duplex and paid about $90,000 for it. It was in an excellent location. Besides being a good investment, it was also a nice place to live. We lived there a couple of years, then we found a single family home that was classified as a fixer-upper. We moved, but we kept the duplex, then we proceeded to rent the other side out.

On how they share responsibility:

Handling money and budgeting has always been a shared responsibility. I've been a stay-at-home dad for two years now. One of the things that became my responsibility, and a hidden reason why we did this, was to pay more attention to our finances. Now I have more time to do that. Even though we make decisions together, I do the tracking and the record-keeping.

We have a savings budget. We don't have what I'd call an expense budget. We have always been very aggressive savers. If we've been able to meet our savings budget, then we manage our expenses.

We've always worked off of percentages. We select a percent goal that we want to save from our base salaries and have always stuck to that. I might only have one mutual fund right now pulling automatically out of my checking account on a monthly basis. But we've always automatically funded our 401(k)s. Over half the time we've maximized beyond what the company has matched within the allowable percentage.

On taking a risk:

Because of our kids and our careers, we decided to move to another area, and what we ended up doing is we traded our old duplex for two duplexes in the area we moved to.

Last year I refinanced one of the two duplexes and pulled some money out of it to purchase a third duplex. Now, 15 years later, our $5,000 investment is driving three buildings, with a total value of about $280,000. My equity went from $5,000 to, at this point, $130,000.

Last year when we bought the third property, and refinanced one, we had enough money that I pulled out in equity that we had surplus cash. We had to be efficient with the cash. Debbie wanted to pay off

one of the duplexes, to have one free and clear. I wanted to put it into stocks and invest it. There was a little turmoil in our household because I'm a more aggressive investor than she is. We decided to pay off one duplex under the condition that at some point I would mortgage it again to purchase another property.

About 15 years ago, my father and I purchased two buildings as 50 percent partners. I purchased my 50 percent with no money down because one was on a land contract. We were a little creative with the financing. The other one was traditional. For half of it my father paid the down payment and I took a second mortgage, a personal note, out with him. That increased my leverage because I didn't have any money of my own actually invested. Fortunately, because of the type of properties, we were still able to keep a positive cash flow. My side was paying the full half of the mortgage. When we moved we also traded those and the new properties also have grown in value.

And, because we still own them as partners, the total equity for the full buildings is $240,000. My half would be $120,000. We have about 50 percent equity in those right now. My zero dollars have turned into a real $60,000.

On what he's most proud of:

It's good to be 39 and retired and home with my kids. We can do that because Debbie has a very good job. And prior to it, I was making a professional wage. We were aggressively saving when we had two incomes. We had enough confidence in what we were doing that one of us could stop working.

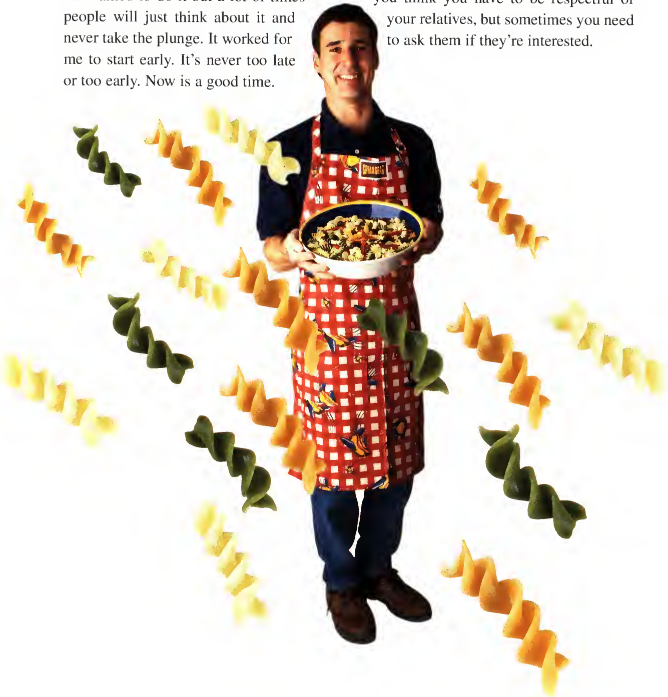
We could do it because of the real estate. I've always had a passion and a desire to do that more. It got to a point where, if I was going to continue working, I was going to have to sell and get out of it. With three kids, professional jobs, and the real estate, it was too much. We went with the feeling that we could financially swing it. At that point we did serious budgeting.

On advice to others:

As far as owning property, be brave enough to go ahead and do it. Our postal carrier just bought a duplex. He watched me paint one this summer and he asked me questions. It's something he has thought about for years. Then one was available in the neighborhood, and I made an appointment with the realtor to see it and told him to be there. He and I saw it together. And he bought it.

My postal carrier is probably 55 years old. He's looking for something to do during retirement, besides having some retirement income. I was trying to give him advice and information and courage. He wanted to do it but a lot of times people will just think about it and never take the plunge. It worked for me to start early. It's never too late or too early. Now is a good time.

Don't forget relatives. Debbie's father is champing at the bit to buy something with or without me, and have me manage it. I could do that, too, with nothing down. I've read real estate books that say you think you have to be respectful of your relatives, but sometimes you need to ask them if they're interested.



Spending and savings plan

A spending and savings plan, also known as a budget, is written to help individuals and families take control of their finances. Your spending and savings plan should include all household expenses and income. It should include expenses for entertainment and hobbies. It should also include the expense of contributions you make to your church or to other organizations. It should be flexible enough to allow you to make changes, yet firm enough to help you meet your short- and long-term financial goals.

Experts recommend you track your spending for at least two months before trying to develop a spending and savings plan. This allows you to really understand where your money is going and which categories need to be included in your spending and savings plan.

Taxable income

Taxable income is the amount you must pay taxes on after deductions, exemptions and adjustments have been subtracted from your total income. How you manage your taxes will determine how much of your income is left to save, spend or invest for the things you and your family want and need. Simple mistakes, such as forgetting to change marital status or add a new family member to your W-4 form at work, can cost you hundreds of tax dollars. Keep your tax status up-to-date.

Unearned income

Unearned income is received from sources other than employers. Examples of unearned income include interest and dividends on savings or investments. Unearned income is a way to make money grow to reach financial goals.

Variable expenses

Variable expenses may sometimes be referred to as flexible expenses. These expenses are the ones you can manage to help you live within your budget. Examples of variable expenses are entertainment, food, and transportation. Expenses you cannot control are called fixed expenses. These include rent or mortgage, car payments and child care. To reach financial goals you must learn to balance fixed and variable expenses.

Web sites

Modern technology provides an opportunity for immediate information to assist us in all areas that impact our finances. For information on how to understand and manage your financial resources, refer to the Web sites noted here and to booklets 1 through 4. As you explore the Internet, you'll find additional Web sites on these topics.

- Consumer information: http//www.pueblo.gsa.gov
- Buying a car: http://www.autosite.com. Also, search the Internet by using key words "car" or "automobile."
- Buying a home: http://www.realtor.com
- Investing: http://www.better-investing.org
- Aid Association for Lutherans (AAL): http://www.aal.org

Xenophile

A xenophile is attracted to foreign things, including manners or styles. Americans continue to have the poorest saving habits of any developed country. Research indicates foreigners save twice as much as most Americans. Americans must realize it's OK to become xenophiles when it comes to saving money. If you want to be able to reach your financial goals, you have to commit to saving money. The standard recommended savings rate is 10 percent of gross salary. If you can't afford to save 10 percent of your gross, start with 10 percent of take-home pay. If you can't afford that, start with 5 percent. If 5 percent isn't possible, save any amount you can on a *regular* basis. Then, set a goal to increase your savings as your income increases and your debt obligations decrease.

Yield

Yield is the amount of income you receive on an investment. Investment opportunities with high yields usually mean a higher risk of losing money, but greater potential for making money. The secret to making this work is never to invest more than you are comfortable losing.

Zero-coupon bonds

Zero-coupon bonds offer an opportunity to save now for retirement and defer paying taxes on the money until later. Zero-coupon bonds are municipal, corporate or treasury issues. They are offered at prices far below their face value. Rather than paying annual interest, the interest accumulates in the bond and is paid to investors when the bond matures and is redeemed for face value.

Turning Words Into Action

List three financial practices or habits you currently have. These could be good or bad habits:

1.____

2.____

3.____

Now list three things you've read in this booklet that could help you change bad financial habits and adopt good ones:

1.____

2.____

3.____

Now, make a plan. Look at the two lists above and write notes to yourself on how to change your bad habits and expand your good ones. Be specific and realistic. Be aware that committing a plan to writing is a step toward ensuring your financial security. Congratulations! You're on your way.

Living the Affordable Life

There you have it, the end of the fifth booklet in this series. We hope we've opened your eyes to a few ideas that will help you manage your money more effectively.

Living the affordable life has a lot less to do with how much money you have than it does with how you handle that money. You might make $25,000 a year and be in much better financial shape than a colleague who makes four times as much.

The real people you've met in this series of booklets have struggled through hard times and celebrated good times. They've saved and spent with cash and credit. They've set short- and long-term goals or wished they had. They watch TV. They take care of their kids. They read books. They shop at the mall. They contribute to their church. They continue to learn more about how to live the affordable life and reap the benefits that come from doing so.

- You can, too.
- Why not start now?

AAL.
The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

On the financial side

Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

AAL. More than 1.7 million members joined together for financial security and for helping one another. A powerful idea that touches the lives of millions of people each day.

AAL®

AID ASSOCIATION FOR LUTHERANS

4321 N. Ballard Road, Appleton, WI 54919-0001
www.aal.org • e-mail: aalmail@aal.org • (800) 225-5225

[1]Where available.
[2]Underwritten by National General Insurance Companies.

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THEAFFORDABLELIFE

A PRACTICAL GUIDE TO MANAGING YOUR MONEY

TAKING THE NEXT STEP

What Do You Do Now?

In booklets 1 through 5 in this series, you've learned many facts about financial topics, from developing a personal financial philosophy to learning the alphabet of financial success.

And you've met many people who've shared personal stories. Maybe some of their stories matched the problems or successes you've had with financial issues such as credit or saving. We hope that you have found the stories and information beneficial to your growth toward the financial security you desire.

Whatever your financial goals are, you will probably find that building a relationship with a knowledgeable and trusted professional will help you achieve them more confidently. And getting help may be easier and less complicated than you think it is. If you haven't started your planning, finding the right help should be your first step.

Often, the first step toward a goal is the one we're most hesitant to take. For example, some people hesitate to go to a health club until they lose a little weight so they won't feel embarrassed about being out of shape. Some people hesitate to ask questions about the things they want to know because the questions may seem "dumb." Many people may hesitate to look for help with financial matters because they don't understand exactly how a professional can help, or they may feel that they need to have their financial matters in order before talking with a professional.

Health, academic, financial and insurance professionals would probably be the first to tell you that it is never too soon to ask for the help you need to start working toward the goals you want to reach. Truly dedicated professionals have a desire to help you get started in the right way, from whatever point you're beginning, and with whatever resources you have available.

Taking the Next Step

If you wait until you lose the extra weight, you may not get to the health club. If you don't ask questions, you may not get another opportunity to learn the things you want to know. If you wait until you feel your financial affairs are in order to seek the help of a professional, you may not reach your financial goals when you would like to. The key to making that first step a successful one is finding professional help you can trust.

When you're considering insurance matters, we hope that you will look to Aid Association for Lutherans (AAL) as an organization you can trust. Generations of Lutherans and their families have relied on AAL for insurance protection and valuable self-help benefits.

Wherever you are in your financial growth, your personal AAL representative wants to help you be sure that you're building your future on a solid, financially secure foundation.

Effective money management takes more than simply knowing about specific financial, insurance and retirement products or services. It takes understanding how the many different products and services work together to address your individual needs. It takes knowing which products should be used for which needs, how they should be used and when they should be used to get the maximum benefit from them.

As a professional, your AAL representative knows what questions to ask about your goals and dreams so that, together, you can find the answers that will help achieve your goals and bring your dreams to life. And using AAL's free Lifeplan® financial analysis, your representative will be able to show you where you are now in relation to reaching your insurance and financial goals. It's difficult to know what you must do to get to where you are hoping to go, if you don't know where you are now. Knowing where you want to go and where you are will provide the road map for your journey.

After spending some time with your AAL representative discussing your dreams and goals, you will be able to explore the insurance and financial opportunities that will help move you toward your desired lifestyle.

How AAL and Its Affiliates Can Help

How can AAL and its affiliates help?

AAL and its affiliates offer a wide variety of products, programs and benefits for every stage of your life. Whether you're young and single, a member of a growing family, preparing for retirement or retired right now, your AAL representative can show you the ways that AAL and its affiliates can offer insurance, financial and trust opportunities to help benefit your life. Call your AAL representative today if you would like to know more about any of the opportunities AAL and its affiliates offer. If you need to find out who your AAL representative is, call an AAL customer service representative at (800) 225-5225, or visit the AAL Web site at www.aal.org. Don't hesitate to take the next step toward your financial future.

Products, Programs and Benefits

LIFE INSURANCE

AAL Variable Universal Life[1, 2, 3]

Flexible Premium Adjustable Life (Horizon)

Level Premium Whole Life (QUAALITY LIFE)

Term (level premium, decreasing)

Juvenile Insurance (Universal, whole life, guaranteed issue)

Survivorship (Legacy)[1]

Mortgage Insurance (decreasing term)

LONG-TERM CARE INSURANCE

Nursing Facility Insurance[1]

Long-term Care Insurance[1]

MEDICARE SUPPLEMENT INSURANCE[1]

MEDICAL INSURANCE[1, 5]

Individual Major Medical[1, 5]

Short Term Medical[1, 5]

MSA Qualified High Deductible Plan[1, 5]

College Student Medical[1, 5]

Hospital/Surgical Plan[1, 5]

DISABILITY INCOME INSURANCE

VEHICLE AND HOME INSURANCE[1, 4]

ANNUITIES

Deferred Annuities
- AAL Single Premium Deferred Annuity
- AAL Flexible Premium Deferred Annuity
- AAL Flexible Premium Deferred Variable Annuity[1,2,3]

Immediate Annuity
- AAL Single Premium Immediate Annuity
- AAL Single Premium Immediate Variable Annuity[1,2,3]

RETIREMENT PLANS

(Offered by Aid Association for Lutherans, FBS.)

Individual Retirement Account (IRA)
- Traditional IRA
- Roth IRA
- Simplified Employee Pension Plan (SEP)

Tax-Sheltered Annuity (TSA)

Savings Incentive Match Plan for Employees of Small Businesses (SIMPLE)

Qualified Retirement Plans for large or small businesses
- Profit Sharing Plan
- Money Purchase Pension Plan

Products, Programs and Benefits

BUSINESS INSURANCE

Buy/Sell Insurance

Deferred Compensation

Key Person Insurance

Executive Bonus

Salary Continuation

Retirement Plans

Split-Dollar Arrangements

PLANNING ASSISTANCE

Lifeplan® Financial Analysis

Business Continuation Planning

Charitable Gifting

Estate Protection Analysis

Retirement Planning
- Individual Retirement Planning
- Pre-retirement Planning
- Post-retirement Planning

INVESTMENT PRODUCTS AND SERVICES[3]

(Securities offered through AAL Capital Management Corporation, a wholly owned subsidiary of AAL.)

The AAL Mutual Funds

The AAL Small Cap Stock Fund

The AAL Mid Cap Stock Fund

The AAL International Fund

The AAL Capital Growth Fund

The AAL Equity Income Fund

The AAL Balanced Fund

The AAL High Yield Bond Fund

The AAL Municipal Bond Fund

The AAL Bond Fund

The AAL Money Market Fund

Institutional Investment Management Services

The AAL Mutual Funds Institutional Class Shares

Private Money Management Services

AAL Flexible Premium Deferred Variable Annuity[1, 2, 3]

AAL Variable Universal Life[1, 2, 3]

OTHER PROGRAMS AND SERVICES

(Offered through AAL Capital Management Corporation, a wholly owned subsidiary of AAL.)

Retirement Programs

Individual Retirement Account (IRA)
- Traditional IRA
- Roth IRA

403(b) Retirement Plan Account

Business Retirement Plan Programs

Simplified Employee Pension Plan (SEP)

Savings Incentive Match Plan for Employees of Small Businesses (SIMPLE)

Profit Sharing Plan

401(k) Plan

Money Purchase Pension Plan

Automatic Investment Plans

Bank Draft Plan

Capital Builder Plan

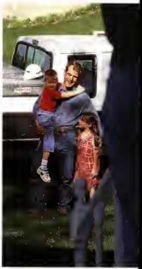
Payroll Investment Plan

Charitable Giving Strategies

Custodial Accounts for Minors

Education IRA

Brokerage Services



Products, Programs and Benefits

CREDIT UNION SERVICES

(Offered by AAL Member Credit Union, an affiliate of AAL, exclusively to AAL members.)

Benefit Checking[8]
Benefit*Plus* Checking[8]
Credit Cards
Student/Parent MasterCard®
Education Plus Savings Account[8]
Christmas Club[8]
Vacation Club Savings Account[8]
Home Sweet Home Savings Account[8]
Access Plus Savings Account[8]
Teen$ave[8]
Term Share Certificates[8]
Fixed and Adjustable Rate Home Loans[1]
Stafford Student Loans, Parent Loans
Home Equity Loans[1]
New and Used Vehicle Loans
Recreational Vehicle/Boat Loans
Loans Using Cash Value of AAL Insurance Certificate as Collateral
Unsecured Loans

TRUST SERVICES

(Offered through AAL Trust Company, FSB, a wholly owned subsidiary of AAL, serving Lutherans and the general public.)

Bill Payment
Charitable Trusts
Church Accounts
Credit Shelter Trusts
Custodial Accounts
Educational Trusts
Endowments or Foundation Accounts
Guardianship
Initial and Successor Trustee
Investment Management Services
IRA Rollovers
Irrevocable Life Insurance Trusts
Irrevocable Minors Trusts - 2503(b) and 2503(c)
Marital Trusts
Personal Trusts
QTIP Trusts (Qualified Terminable Interest Property Trust)
Revocable Living Trusts
Special Needs Trusts
Structured Settlement Administration
Testamentary Trusts

CHURCH AND CHURCH-RELATED LOANS

Mortgage Loans

Unsecured Loans

SCHOLARSHIP OPPORTUNITIES FOR AAL BENEFIT MEMBERS[7]

Adult Scholarship Program

All-College Scholarship Program

Lutheran Campus Scholarship Program

Vocational/Technical School Scholarship Program

Lutheran Music Program Scholarships

LOCAL BRANCH PROGRAMS AND OPPORTUNITIES

Branch Educational, Social and Recognition Programs

Confirmation Recognition

RETIREMENT *Mapping Your Journey*

Set Your Sites

Passing on your Legacy ... Why protecting your estate is important today

Spice Up Your Life

Taking Care: Easing the Role of the Family Caregiver

Family Serve: Volunteer Opportunities for Families

Volunteer Opportunities

Helping Hands: Caring Acts Through Fund-Raising or Service

Have A Ball ... Volunteer

Youth Serve: Volunteer Opportunities for Lutheran Youth

Building Hope, Building Homes Challenge Grant

Products, Programs and Benefits

COMPLIMENTARY BENEFITS FOR AAL MEMBERS

Helping You Manage Your Money

The Affordable Life: A Practical Guide to Managing Your Money

Yes U Can! A Family's Guide to Financing Higher Education (For families with children 0-12)

Yes U Can! A Family's Guide to Financing Higher Education (For families with children 13-18)

Your Will Planning Workbook

Meeting the Needs of Your Children

AAL Kids' Club

Celebrate the World of You

Families Communicate

Family Fraternal Benefit

Knowing Where You're Going …
Life After High School

Mouse Prints: Journey Through the Church Year

Orphan Fraternal Benefit [7]

Parenting Today Video Series

- Baby Steps—The First 12 Months
- Small Steps, Giant Leaps—12 Months to 3 Years
- Today's Steps, Tomorrow's Path—The Preschooler, 3 to 5 Years
- Steps and Starts—The Middle Childhood Years, 6 Through 10
- Stepping Toward Independence—The Adolescent Years, 11 Through 15

Storytime With Your Children

The Thing About Money

The Very First Christmas

The Very First Easter

Helping You Stay Well

Eat Right, Exercise Right

Heart Sense

A Time to Mourn, A Time to Dance: Help for the Losses in Life

Helping You in Your Daily Life

Family Health Organizer

Home Sweet Home: How to Help Older Adults Live Independently

Labor of Love

Making Our Marriage Last a Lifetime

Personal and Family Devotionals

Real Food, Real Fast

Together Forever®

Planning for Retirement

The Estate Protection Record Keeper

Getting the Most Out of Medicare and Medicare Supplement Insurance

Taking the Good Life into Retirement—All It Takes Is a Little Bit of Planning

Products, Programs and Benefits

SUPPORT FOR THE LUTHERAN CHURCH

Grants to Lutheran Church Bodies and Their Entities

Church Grants to Lutheran Agencies and Organizations

Giving Thanks℠—Ongoing Giving Service

National and Regional Lutheran Event Assistance

Milestone—Congregational Anniversary Program

Member Gift Matching for Lutheran Educational Institutions

Lutheran Seminary Student Support

Extended Offering Disability Income Benefit

[1] Where available.

[2] A product of AAL that is distributed through AAL Capital Management Corporation, a wholly owned subsidiary of AAL.

[3] Securities offered through AAL Capital Management Corporation, 222 W. College Ave., Appleton, WI 54919-0007, a wholly owned subsidiary of AAL. Member NASD, SIPC. For more complete information, including charges and expenses, call (800) 553-6319 for a free prospectus. You should read the prospectus carefully before you send money or apply. Of course, you are under no obligation to purchase these products.

[4] Underwritten by National General Insurance Companies (NGIC). For vehicle insurance quotes, call (800) 847-2886. For home insurance quotes, call (800) 847-7233.

[5] Provided through brokerage arrangements with selected quality insurers.

[6] Available in Spanish.

[7] Not available to associate members.

[8] All savings and Term Share Certificate accounts are federally insured up to $100,000.

AAL.
The Success of a Powerful Idea.

It was a simple idea in 1902: Lutherans joining together for financial security and for helping one another. Over the past 95 years, Aid Association for Lutherans has become one of the nation's leading fraternal benefit societies, a strong and powerful resource for Lutherans, their families and their communities.

On the financial side

Life, disability income and long-term care insurance. Medicare supplement insurance.[1] Annuities. Retirement plans. The Lifeplan® service, a free financial analysis. And a personal, professional AAL representative to give you the attention you deserve. Medical insurance[1] available through brokerage arrangements. Access to vehicle insurance.[1, 2]

Plus mutual funds available through AAL Capital Management Corporation. Credit union services for members from the AAL Member Credit Union. And trust services from the AAL Trust Company, FSB.

On the "helping" side

More than 10,000 local branch chapters making a difference in communities across the country through fund-raising and service projects. Member benefits, including educational resources on family and health topics. Scholarship opportunities. And a wide range of grants to help Lutheran congregations and institutions.

AAL. More than 1.7 million members joined together for financial security and for helping one another. A powerful idea that touches the lives of millions of people each day.

AID ASSOCIATION FOR LUTHERANS

4321 N. Ballard Road, Appleton, WI 54919-0001
www.aal.org • e-mail: aalmail@aal.org • (800) 225-5225

[1]Where available.
[2]Underwritten by National General Insurance Companies.

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